Case:17-03283-LTS Doc#:3699-3 Filed:07/25/18 Entered:07/25/18 17:40:18 Desc:
Exhibit C Page 1 of 98

LANDA UMPIERRE PSC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information

June 30, 2015

(With Independent Auditors' Report Thereon)

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Table of Contents

June 30, 2015

LANDA UMPIERRE PSC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

P.O. Box 363642
San Juan, PR 00936
Tel. 787-765-4644
Fax 787-763-5504
www.landaumpierre.com

Independent Auditors' Report

To the Board of Directors of
State Insurance Fund Corporation:

Report on the Financial Statements

We have audited the accompanying basic financial statements of State Insurance Fund Corporation (the Corporation), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2015, and the related notes to the basic financial statements, which collectively comprise the Corporation basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

LANDA UMPIERRE PSC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

As more fully described in Note 2 to the basic financial statements, in fiscal year 2015, the Corporation adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB No. 68), and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An amendment of GASB Statement No. 68* (GASB No. 71) using preliminary unaudited amounts to reflect the required adjustments and related disclosures. The implementation of GASB No. 68, resulted in a restatement of beginning net position of approximately $1.3 billion and reporting of the following preliminary and unaudited pension data corresponding to the Corporation's proportionate share of the Employees' Retirement System of the Commonwealth of Puerto Rico's collective pension amounts: net pension liability of approximately $1.4 billion, deferred outflows of resources of $79 million, deferred inflows of resources of $11.3 million and pension expense of $81.3 million.

As of the date of issuance of the accompanying basic financial statements, the Commonwealth of Puerto Rico has not issued audited information to implement the requirements of GASB No. 68 and GASB No. 71. Therefore, we were unable to form an opinion regarding the amounts and related disclosures of GASB No. 68 and GASB No. 71 presented in the accompanying basic financial statements, and were unable to obtain sufficient appropriate audit evidence about the implementation of GASB No. 68 and GASB No. 71 by other auditing procedures.

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation, as of June 30, 2015, and the respective statements of revenues, expenses and changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adoption of New Accounting Standard

As discussed in Note 2 to the basic financial statements and in Basis for Qualified Opinion paragraphs above, in fiscal year 2015, the Corporation adopted GASB No. 68 and GASB No. 71.

LANDA UMPIERRE PSC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 thru 17, the Ten-Year Claims Development Information, Preliminary and Unaudited Schedules of the Corporation's Proportionate Share of the Net Pension Liability and Corporation's Contributions, and the Schedules of Funding Progress and Employer Contributions for Pension Costs and Postemployment Benefits Other than Pensions on pages 91 thru 94, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated June 30. 2016, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Landa Umpierre PSC

San Juan, Puerto Rico
June 30, 2016

Stamp number E189879 of the Puerto Rico Society
of CPA's was affixed to the record copy of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

INTRODUCTION

The State Insurance Fund Corporation (the Corporation) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Law No. 45 of April 18, 1935, as amended, known as the Workmen Compensation Insurance Act (the Act). Under the provisions of the Act, the Corporation is the exclusive provider of insurance coverage for work related accidents, deaths, and illnesses suffered by workers in Puerto Rico. On October 29, 1992, the Act was amended by Law No. 83 to convert the agency into a governmental corporation and to establish the functions and responsibilities of the Board of Directors, the Administrator and the Industrial Medical Advisory Board.

The Act provides that the Corporation's administrative expenses shall not exceed 22% of the total insurance premiums collected during the previous fiscal year. Administrative expenses exclude depreciation and amortization expense, provision for (recoveries of) uncollectible accounts, interest expense and investment managers' fees. The Corporation complied with this requirement of the Act for the year ended June 30, 2015.

This section presents a narrative overview and analysis of the financial performance of the Corporation as of and for the year ended June 30, 2015. The information presented here should be read in conjuction with the basic financial statements, including the notes thereto.

FINANCIAL HIGHLIGHTS

- The Corporation reported a net deficit position of $930.4 million at June 30, 2015 comprised of $1,816.6 million in total assets and $79 million in deferred outflows of resources, less $2,814.7 million in total liabilities and $11.3 million in deferred inflows of resources.
- The net deficit position of the Corporation is mainly the result of the implementation in 2015 of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB Statement No. 68). GASB Statement No. 68 establishes among other things that employers participating in defined benefit cost-sharing multiple employer pension plans are now required to recognize their proportionate share of the "collective" net pension liability on the face of their statements of net position. The implementation of GASB Statement No. 68, resulted in a restatement of beginning net position of $1,299.6 million and reporting of the following preliminary and unaudited pension data corresponding to the Corporation's proportionate share of the Retirement System's collective pension amounts: net pension liability of $1,418 million, deferred outflows of resources of $79 million, deferred inflows of resources of $11.3 million and pension expense of $81.3 million.
- Decrease in total assets of $112.6 million in 2015 when compared to 2014.
- Increase in total liabilities of $1,288.1 million in 2015 when compared to 2014.
- The Corporation recorded deferred outflows of resources and deferred inflows of resources related to pension in 2015, amounting to $79 million and $11.3 million, respectively, as a result of the implementation of GASB Statement No. 68.

- Decrease in operating revenues of $25.1 million in 2015 when compared to 2014. The historical trend of premium collections for the last years, presents a significant reduction of revenues, which resulted in a decrease of approximately 5% in 2015. As a result of the downturn in the Puerto Rico economy it is expected that this adverse trend will continue in the upcoming years, therefore, resulting in a negative impact in the cash flows necessary for the Corporation to comply with all its obligations.
- Decrease in operating expenses of $37.9 million in 2015 when compared to 2014.
- Decrease in compensation and medical benefits of $46.3 million in 2015 when compared to 2014.
- The actuarially determined credit for compensation benefits, medical benefits and benefit adjustment expenses increased by $45 million in 2015 ($61.2 million) when compared to 2014 ($16.2 million).
- Increase in general and administrative expenses (excluding depreciation and amortization) of $8.4 million in 2015 when compared to 2014.
- The Corporation had an increase of $12.8 million in its operating income for 2015 when compared to 2014. The positive results are mainly driven by adjustments to actuarially determined reserves.
- At June 30, 2015 the Corporation's unfunded liabilities in connection with the Pension and Other Postemployment plans not covered by GASB Statement No.68 amounted to $18,214,636 and $30,838,515, respectively. Currently, the Corporation does not have specific assets set aside to cover these liabilities.
- Transfers to other governmental agencies amounted to $106.8 million in 2015 as compared to $107.9 million in 2014. These transfers of funds have an adverse impact in the Corporation's resources in order to comply with its obligations and social responsibility.
- The change in net position for the year ended June 30, 2015 resulted in a decrease of $33.4 million. The negative results are mainly driven by the implementation in 2015 of GASB Statement No. 68, which resulted in recording a pension expense of $81.3 million. Furthermore, the investment portfolio experienced an overall depreciation in its market value of $13.4 million.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is required supplementary information to the basic financial statements and is intended to serve as an introduction to the basic financial statements of the Corporation. The Corporation is a self–supporting entity and follows the enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long term financial information about the activities and operations of the Corporation.

The basic financial statements include the following: (1) Statement of Net Position, (2) Statement of Revenues, Expenses, and Changes in Net Position, (3) Statement of Cash Flows, and (4) Notes to the Basic Financial Statements. The Corporation also includes additional required information to supplement the basic financial statements.

The statement of net position provides information on the Corporation's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual of all elements presented in a financial position statement reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information on how the Corporation's net position changed during the reporting period. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The statement of cash flows shows changes in cash and cash equivalents, resulting from operating, non–capital and capital financing and investing activities, which include cash receipts and cash disbursements information.

The notes to the basic financial statements provide additional information that is essential for a full understanding of the data provided in the basic financial statements.

The required supplementary information consists of four schedules concerning the following: (1) the ten–year claims development information required by the Governmental Accounting Standards Board (GASB) Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended, (2) the supplementary information of the Corporation's proportionate share of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System) net pension liability and contributions established in statute as required by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB Statement No. 68), (3) the supplementary information of the Corporation's Pension Costs (for pensions not covered by GASB Statement No. 68) as required by GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and (4) the supplementary information of the Corporation's Postemployment Benefits other than Pensions Program as required by the GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*.

FINANCIAL ANALYSIS

The following is the condensed financial position of the Corporation as of June 30, 2015 and 2014:

Condensed Statements of Net Position

		June 30,		Change	
		2015	2014	Amount	Percent
Assets:					
Cash and cash equivalents	$	152,459,267	142,334,247	10,125,020	7.11%
Accounts receivable - net		81,599,435	101,399,353	(19,799,918)	-19.53%
Investments		1,368,489,186	1,580,329,990	(211,840,804)	-13.40%
Capital assets - net		109,490,074	101,604,705	7,885,369	7.76%
Other assets		104,597,059	3,567,381	101,029,678	2832.04%
Total assets		1,816,635,021	1,929,235,676	(112,600,655)	-5.84%
Deferred outflows of resources		79,027,503	—	79,027,503	100.00%
Total assets and deferred outflows	$	1,895,662,524	1,929,235,676	(33,573,152)	-1.74%
Liabilities:					
Current liabilities	$	678,486,963	548,817,902	129,669,061	23.63%
Non-current liabilities		2,136,247,301	977,814,742	1,158,432,559	118.47%
Total liabilities		2,814,734,264	1,526,632,644	1,288,101,620	84.38%
Deferred inflows of resources		11,347,132	—	11,347,132	100.00%
Net position:					
Net investment in capital assets		58,447,635	44,503,796	13,943,839	31.33%
Restricted		62,920,001	67,760,000	(4,839,999)	-7.14%
Unrestricted		(1,051,786,508)	290,339,236	(1,342,125,744)	-462.26%
Total net position		(930,418,872)	402,603,032	(1,333,021,904)	-331.10%
Total liabilities, deferred inflows and net position	$	1,895,662,524	1,929,235,676	(33,573,152)	-1.74%

- **The Corporation's total assets decreased by $112.6 million in 2015 (or 5.84%).**

Decrease in total assets of the Corporation to $1,816.6 million in 2015 from $1,929.2 million in 2014 is mainly attributed to the net effect of: a decrease in premiums receivable as a result of the decreasing trend in premiums impositions and collections experienced by the Corporation during the past years, decrease in accounts receivable from investment brokers, decrease in investment securities as a result of a decrease in the overall valuation of the portfolio and liquidation of certain positions to obtain the necessary cash to grant a new loan to the Commonwealth and pay intergovernmental transfers as a result of new legislation.

The decreasing trend in premiums collections (decrease of 6% in gross collections for 2015 as compared to 2014) has caused a decrease in the net realizable value of insurance premiums receivable. The decreasing trend in the additional premiums imposed has also caused a decrease in the estimate for additional premiums not yet imposed at June 30, 2015.

On June 4, 2015, Act No. 80-2015 (Act 80) was enacted to authorize the Corporation, among other governmental agencies, to issue a loan and/or a contribution to the General Fund of the Commonwealth of Puerto Rico. Pursuant to Act 80, on June 5, 2015, the Corporation granted a loan in the amount of $100 million to the Department of the Treasury of the Commonwealth of Puerto Rico, at a 1% interest rate, to be payable along with the principal amount on an annual basis from July 31, 2017 through July 31, 2032, which has been presented as a non-current Note Receivable from the Commonwealth in the accompanying financial statements as of June 30, 2015. In order to grant the loan, $100 million were withdrawn from the Corporation's investment portfolio, thus contributing to the decrease in investment securities as of June 30, 2015.

On April 6, 2016, the Governor signed Act 21, known as the "Puerto Rico Emergency Moratorium and Financial Rehabilitation Act". Act 21 authorizes the Governor to (i) declare a moratorium on debt service payments for a temporary period for the Commonwealth, the Government Development Bank for Puerto Rico (GDB), the Economic Development Bank for Puerto Rico (EDB), or any of the remaining government instrumentalities of Puerto Rico, and (ii) stay creditor remedies that may result from the moratorium. It also amends GDB's and EDB's Enabling Acts related to its receivership provisions and authorizes the creation of a temporary "bridge" bank to carry on certain of GDB's functions and honor deposits. It also creates a new fiscal agency and financial authority.

On April 8, 2016, pursuant to Act 21, the Governor signed an Executive Order which declared that GDB is in a state of emergency and announced the commencement, as of the date of the Executive Order, of an emergency period as defined in Act 21. As further explained in Note 3 to the financial statements, the Executive Order imposes restrictions on the withdrawal, payment, and transfer requests submitted to GDB by the Judicial Branch, the Legislative Branch, and various government instrumentalities including the Corporation. It also prohibits the disbursement of any and all loans and advances by GDB, and (b) the payment of any and all obligations guaranteed by GDB are temporarily suspended. The Executive Order will remain in full force and effect until the earlier of (i) June 30, 2016, or (ii) revocation of the Executive Order.

- **The Corporation's total liabilities increased by $1,288.1 million in 2015 (or 84.38%).**

Increase in total liabilities to $2,814.7 million in 2015 from $1,526.6 million in 2014 is mainly attributed to the implementation of GASB Statement No. 68, which resulted in the Corporation recording an ending net pension liability of $1,417.9 million. GASB Statement No. 68, which replaces GASB Statement No. 27, *Accounting for Pensions by State and Local Governments* (GASB Statement No. 27), establishes among other things that employers participating in defined benefit cost-sharing multiple employer pension plans will be required to recognize their proportionate share of the "collective" net pension liability on the face of their statements of net position.

On the other hand, the Corporation did experience during the year a significant decrease in accounts payable to investment brokers as a result of securities purchased not yet received at June 30, 2015 and overall decreases in the liability for incurred but unpaid benefits and benefit adjustment

expenses, accrual for reimbursement of premiums and payments made to note payable, other notes payable, and capital lease obligation.

On June 17, 2014, the Legislature of the Commonwealth enacted Act No. 66-2014, the "Fiscal Sustainability Act". The Fiscal Sustainability Act is a fiscal emergency law enacted to address the fiscal pressures on the Commonwealth imposed by excessive leverage, persistent budgetary deficits, sluggish economic growth, and fiscally challenged public corporations, among others, as exacerbated by the credit rating downgrades that occurred in February of 2014. The Fiscal Sustainability Act will remain in effect for three fiscal years ending on June 30, 2017, or earlier if certain parameters are met.

The principal corrective measures adopted by the Fiscal Sustainability Act include the following: (i) the freezing of benefits under collective bargaining agreements and the reduction of certain non-salary compensation; (ii) the contribution of the savings generated by certain public corporations to support certain General Fund expenses; (iii) the freezing of formula appropriation increases to the University of Puerto Rico and the municipalities; (iv) the freezing and reduction of formula appropriations to the Judicial Branch, the Legislative Assembly and certain other entities; (v) the reduction in school transportation costs; (vi) the reduction of rates for professional and purchased services; (vii) the freezing of water rates for governmental entities; and (viii) the implementation of a payment plan system for legal judgments, among others. In addition, the Fiscal Sustainability Act imposes substantial additional managerial and administrative controls on the operations of the Executive Branch, including hiring and contracting requirements and procedures, savings targets for rent and utilities, fines to public employees for unauthorized transactions, and overall strengthening of oversight by the Commonwealth's Office of Management and Budget (OMB).

After the enactment of the Act No. 66-2014, the Corporation entered into certain negotiations with the unionized groups within the Corporation, specifically in relation to the payment of certain benefits. As a result of the enactment of this Act, the Corporation reported decreases in the accruals for compensated absences and Christmas bonus, and recorded an accrual for intergovernmental transfer of approximately $17 million as of June 30, 2015 representing the certified savings from the enactment of the Act. The Corporation is required to transfer the aforementioned savings of approximately $17 million to the "Fund of Services and Therapies for Special Education Students", in equal monthly installments during fiscal year 2015, and an equal amount shall be transferred during fiscal years 2016 and 2017.

Act No. 32-2013, required the Corporation to accrue at June 30, 2015 approximately $6 million related to an additional uniform contribution to the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System or ERS) to improve its liquidity and solvency. The Act provides for incremental annual contributions from the Commonwealth General Fund and participating employers including the Corporation, beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries.

The liability for incurred but unpaid compensation and medical benefits, includes a reserve for both reported and unreported insured events (compensation and medical benefits), which includes an estimation of future payments and related adjustment expenses. It is developed by an independent actuary from historical benefit expenses and/or payments gathered by the Corporation. The liability for compensation and medical benefits is based on historical claims experience data, assumptions, and projections of future events, including the frequency, severity and persistency of the claims, as well as the inflationary trends. The accrual for reimbursement of premiums represents an estimate actuarially determined as a result of the settlement of premiums under the policies. The assumptions used in estimating and establishing these liabilities are reviewed annually based on current circumstances and trends.

The liability for incurred but unpaid compensation and medical benefits, including benefit adjustment expenses, has decreased from $812 million as of June 30, 2014 to $760.1 million as of June 30, 2015. The main factor driving the fluctuation is the consistent decrease in the temporary total outstanding losses as well as a decrease in cases adjudged. The implementation of the Global 360 program (described in the compensation and medical benefits section) has resulted in significantly lower levels of temporary total benefits paid since fiscal year 2013. The average ultimate temporary total benefits from fiscal years 2005 to 2012 were about $77 million per year, whereas the average ultimate per year from fiscal year 2013 to fiscal year 2015 is about $18.6 million. Also, the consistent reduction in work force, either because of unemployment or migration, is one of the main factors contributing to a consistent decrease in cases filed and adjudged. The discounted total outstanding losses as of June 30, 2015 have decreased by 8% as compared to the estimate in the prior actuarial study as of June 30, 2014.

As a result of a decreasing trend in settled premiums experienced by the Corporation, the actuarially determined accrual for reimbursement of premiums has decreased from $101.9 million as of June 30, 2014 to $80.5 million as of June 30, 2015.

The pension and postemployment benefits other than pension obligations experienced a decrease of approximately $1 million as compared to obligations as of June 30, 2014, mainly as a result of changes established by Act No. 3-2013, which represents a comprehensive reform of the ERS, and the effect of Act No. 66-2014 (the Fiscal Sustainability Act). The pension obligation increased slightly from $7.3 million as of June 30, 2014 to $8.2 million as of June 30, 2015. The postemployment benefits other than pension obligation have been consistently decreasing from $2.7 million as of June 30, 2014 to $.9 million as of June 30, 2015. Contributions made during fiscal year 2015 were lower than 2014.

- **The Corporation recorded deferred outflows of resources of $79 million and deferred inflows of resources of $11.3 million in 2015.**

As a result of the implementation of GASB Statement No. 68 during 2015, the Corporation recorded deferred outflows of resources and deferred inflows of resources related to pension plan, resulting from changes in the net pension liability not included in pension expense. Deferred outflows of resources also include $30.6 million related to contributions made after the plan measurement date of June 30, 2014.

- **The Corporation's net position decreased by $33.4 million in 2015 (or 3.73%).**

As of June 30, 2015, the Corporation had a deficit of $1,051.8 million in unrestricted net position, $62.9 million in restricted net position and $58.5 million invested in capital assets-net of related debt, for a total net deficit position of $930.4 million. In fiscal year 2015, net position decreased by $33.4 million or 3.73%, from a net deficit position of $897 million as of June 30, 2014, as restated, due to the net effect of a decrease in operating revenues of 4.08%, a decrease in operating expenses of 6.60%, which resulted in operating income of $53.2 million, together with a significant decrease in non-operating revenues of 84.89%, and net of transfers to other governmental agencies of $106.8 million. In order to implement GASB Statement No. 68, a prior period adjustment was made to the Corporation's July 1, 2014 net position. This prior period adjustment decreased the Corporation's net position by $1,299.6 million (from net position of $402.6 million to net deficit of $897 million). The implementation of GASB Statement No. 68 also resulted in reporting a net pension liability of $1,418 million, deferred outflows of resources of $79 million, deferred inflows of resources of $11.3 million and a pension expense of $81.3 million.

The following summarizes the condensed changes in net position of the Corporation for the years ended June 30, 2015 and 2014:

Condensed Statements of Revenues, Expenses and Changes in Net Position

	June 30,		Change	
	2015	2014	Amount	Percent
Operating revenues	$ 589,637,606	614,693,131	(25,055,525)	-4.08%
Operating expenses:				
Compensation and medical benefits	387,321,709	433,645,628	(46,323,919)	-10.68%
General and administrative	149,089,611	140,647,219	8,442,392	6.00%
Total operating expenses	536,411,320	574,292,847	(37,881,527)	-6.60%
Operating income	53,226,286	40,400,284	12,826,002	31.75%
Non-operating revenues - net	20,100,239	133,005,598	(112,905,359)	-84.89%
Transfers to other governmental agencies - net	(106,755,532)	(107,903,822)	1,148,290	-1.06%
Change in net position	(33,429,007)	65,502,060	(98,931,067)	-151.04%
Net position- beginning of year (as restated)	(896,989,865)	337,100,972	(1,234,090,837)	-366.09%
Net position- end of year	$ (930,418,872)	402,603,032	(1,333,021,904)	-331.10%

The Corporation recognizes as income the subscribed premiums, which represent the preliminary premiums assessed at the beginning of the fiscal year plus additional premiums imposed or expected to be imposed as a result of the final settlement of premiums under the insurance policy or reduced by any unearned or reimbursable portion or provision for uncollectible accounts, as determined. Premiums are based on individual employers' reported payroll ledgers using predetermined insurance rates based on the employers' risk classifications. The regular policies are issued for a one–year period consistent with the Corporation's fiscal year, which runs from July 1 to June 30. Incidental policies are issued to cover special risks over a pre-determined period of time. Unearned premiums represent the remaining portion at the end of the fiscal year, which is attributed to the unexpired term of the incidental policies issued during the fiscal year.

Policy costs consist mainly of salaries and certain underwriting expenses. Benefits are recorded on an accrual basis, which includes benefits paid and a liability to cover estimated incurred but unpaid benefits and benefit adjustments expenses based on the ultimate settling cost, as determined by the independent actuary.

- **Operating revenues decreased by $25.1 million in 2015 (or 4.08%).**

Operating revenues decreased by $25.1 million in 2015 as compared to 2014. The decrease in operating revenues results from a decrease of $32.9 million in insurance premiums earned, a decrease of $20.4 million in the reimbursement of insurance premiums, and an increase in the annual provision for uncollectible insurance premiums of $21.9 million. The Corporation did experience an increase of $9.3 million in miscellaneous income principally from uninsured employers, because of an effort made during 2015 to quote and bill uninsured employers promptly.

The Corporation has experienced a reduction in new insurance policies subscribed of 5% in 2015 as compared to 2014, as well as, in preliminary premiums assessed, and final settled premiums (resulting from reductions in preliminary payrolls informed by employers versus the final payrolls). The downturn in the economy, which has affected the construction and employment levels, has caused such a decrease, as well as, a decrease in incidental premiums. The Corporation experienced significant decreases in final payrolls reported by the Department of Education and the Police Department of Puerto Rico, among other employers.

The decrease in the final payrolls reported by employers, as compared to the preliminary payrolls, as well as, the trend in projected and historical results of the settlement of premiums, caused the decrease in the actuarially determined accrual for reimbursement of insurance premiums for 2015 and a decrease in the estimate for additional premiums not yet imposed at June 30, 2015. Also, the decrease experienced by the Corporation in collection of premiums during 2015, has resulted in an increase in the allowance for uncollectible premiums, because of a decrease in the net realizable value of insurance premiums receivable at year end.

- **Compensation and medical benefits decreased by $46.3 million in 2015 (or 10.68%).**

Compensation benefits for the year ended June 30, 2015 amounted to $105 million, a decrease of $23.1 million or 18.01%, when compared to $128.1 million for the prior year. Decrease is principally attributed to short term disability (per diem) payments, which experienced a decrease of approximately $13 million as a result of the Global 360 program described below. Overall, compensation benefits paid decreased by 14% in 2015 as compared to 2014.

As in prior year, the decrease in compensation benefits is principally attributed to short term disability (per diem) payments, as a result of the effect of the implementation of the Global 360 program, in which the Official Disability Guidelines of the Work Loss Data Management are used to determine short term disability (per diem) payments. These guidelines provide minimum and maximum time limits in which cases can remain in resting period, thus shortening significantly the days for which per diem payments are made. Since the implementation of the program in mid-2012, the physician refers to diagnostic codes that prescribe the number of days temporary total benefits should be received for the claimant's type of injury, which is less than a month in the majority of the cases. When the prescribed number of days elapse, the claimant must return to work or seek more medical treatment thus resulting in a significantly lower level of temporary total benefits paid since fiscal year 2013.

Medical benefits for the year ended June 30, 2015 amounted to $343.5 million, an increase of $21.7 million or 6.74%, when compared to $321.8 million for 2014. The increase is principally attributed to the implementation of GASB Statement No. 68 which resulted in recording a pension expense of $52.5 million in the medical benefits expenses. On the other hand the Corporation's medical salaries experienced a decrease as a result of the effect in 2015 of Act No. 3 of 2013, which represented a comprehensive reform of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (The Retirement System). Medical salaries and related benefits had a decrease of approximately 7% in 2015 as compared to 2014.

Another driver in the decrease in compensation and medical benefits in 2015 was the credit for compensation benefits, medical benefits and benefit adjustment expenses which increased by $45 million in 2015 when compared to 2014 resulting from the adjustments made to the liability for incurred but unpaid benefits and benefit adjustment expenses to conform it with the actuarially determined present value of estimated outstanding losses as of June 30, 2015. The main driver in the decrease of this liability has been the temporary total outstanding losses (per diem) which amounts paid have been in much lower levels in 2014 and 2015 than in prior years as a result of the implementation of the program named Global 360, in which the Official Disability Guidelines of the Work Loss Data Management are used to determine short term disability (per diem) payments.

In relation to the pension and postretirement benefits other than pension obligations, these have consistently decreased by 8.8% in 2015 as compared to 2014, as a result of Act No. 3 of 2013 which was signed into law by the Governor of Puerto Rico on April 4, 2013. This Act represents a comprehensive reform of the Retirement System. Act No. 3 became effective on July 1, 2013 and

amends the provisions of the different benefits structures under the ERS (See Note 18). The effect of Act No. 66-2014 (the Fiscal Sustainability Act) are also considered in the determination of these obligations at June 30, 2015.

- **General and administrative expenses (excluding depreciation and amortization) increased by $8.4 million in 2015 (or 6.00%).**

General and administrative expenses (excluding depreciation and amortization) increased by 6.00% in 2015 when compared to 2014 mainly because of the implementation of GASB Statement No. 68 which resulted in recording a pension expense of $28.8 million in the administrative expenses of the Corporation. On the other hand the Corporation had a decrease in administrative salaries, as a result of the effect in 2015 of Act No. 3 of 2013, and in the accruals for compensated absences and Christmas bonus as a result of the enactment of Act No. 66 of 2014. Administrative salaries and related benefits had a decrease of approximately 9% in 2015 as compared to 2014.

- **Non–operating revenues-net decreased by $112.9 million in 2015 (or 84.89%).**

Net non–operating revenues represent principally interest and dividend income, net change in fair value of investments, including derivative instruments, and interest expense. Government accounting policies require that investments be carried at fair value; thus realized gains and losses from the sale of securities and unrealized changes in the fair value of outstanding securities are recorded through operations.

Net decrease in fair value of investments, including derivative instruments, amounted to $13.4 million in 2015, a significant fluctuation of $121.5 million or 112.38% when compared to an increase in fair value of investments of $108.1 million in 2014. The significant variation is due to the fact that in 2014, the Corporation experienced an investment portfolio redistribution process and assignment of new investment managers that resulted in the sale of investment securities with significant realized gains, which was a particular situation in the prior year. The portfolio experienced during 2015 an overall depreciation in its market value, principally in the corporate bonds and GDB notes. On the other hand, interest and dividend income, net of costs (investment managers' fees) amounted to $42.8 million in 2015, an increase of $7.2 million or 20.25%, when compared to $35.6 million in 2014. The increase in interest and dividend income is principally attributed to the effect of receiving interest income on the GDB notes for a full year.

Interest expense amounted to $9.6 million in 2015, a decrease of $1.1 million or 10.09% from 2014, as a result of decrease in principal balance of the Notes Payable and Other Notes Payable, principally.

- **Transfers to other governmental agencies-net decreased by $1.1 million in 2015 (or 1.06%).**

The Corporation is required by legislation, to transfer to other governmental agencies funds for programs related to injured employees and their families. During the year ended June 30, 2015, the

Corporation transferred funds to the Industrial Commission of Puerto Rico, the Department of Labor and Human Resources, the Department of the Family, Puerto Rico Housing Finance Authority and the Labor Affairs Office amounting to $106.8 million, as compared to $107.9 million in 2014. Due to the enactment of Acts No.73 and No.78 of July 1, 2014, the Corporation was required to make intergovernmental transfers of $30,719,127 and $15,000,000, respectively during fiscal year 2015. Contributions made during 2015 to the Retirement System pursuant to Act No.32 of 2013 (Additional Uniform Contribution) amounting to $6.4 million were presented as deferred outflows of resources as part of the implementation of GASB Statement No. 68.

CAPITAL ASSETS AND LONG-TERM DEBT

- **Capital assets-net increased by $7.9 million in 2015 (or 7.76%).**

Capital assets are comprised of land, construction in progress, buildings used to render services to workers, medical and offices' equipment, software and related assets, motor vehicles and assets under capital lease. During the year ended June 30, 2015 the Corporation's capital assets had additions mainly related to the SAP software implementation, acquisition of related licenses and construction in progress of the Industrial Hospital. The Corporation has an outstanding capital commitment of approximately $23 million at June 30, 2015 related to the remodeling and expansion project of the Industrial Hospital. The Corporation entered into an interagency assistance contract with the Puerto Rico Infrastructure Financing Authority, a component unit of the Commonwealth of Puerto Rico, for the development and management of this project in all its phases. The term of the contract ends on June 30, 2016. The project is approximately 35-40% completed.

Refer to Note 8 to the basic financial statements for further information regarding the Corporation's net capital assets.

- **Note payable decreased by $16.1 million in 2015 (or 7.14%).**

On May 11, 2011, the Corporation entered into a loan agreement (the Loan) with a private financial institution for the amount of $242,000,000. The Loan matures on May 1, 2028 and carries a variable interest rate of 30 day LIBOR plus a 2.25% spread. First principal payment was made in 2014. This loan requires the Corporation to comply with certain restrictive covenants, which, in the event of non–compliance, provides the financial institution with the right to declare the outstanding debt as due and payable in cancellation of the loan agreement. One of the covenants requires the Corporation to pledge 130% of the outstanding principal on the loan in securities in its investment portfolio. Proceeds of the loan were used to repay a note payable and interest payable to the Government Development Bank for Puerto Rico ($220,000,000 principal and $3,273,000 in interest), purchase of two buildings ($8,490,000 for building purchased before June 30, 2011 and $10,100,000 for building purchased after June 30, 2011) and other purposes ($137,000).

Decrease in note payable is directly attributed to principal payments. The note payable has been presented as current in the accompanying financial statements as a result of the event of alleged default that existed at June 30, 2015, nevertheless, the default was subsequently retired and the Loan was subsequently prepaid on August 2015 (refer to Note 13).

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This report is designed to provide all interested parties with a general overview of the Corporation's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to State Insurance Fund Corporation, PO Box 365028, San Juan, Puerto Rico, 00936-5028.

******

BASIC FINANCIAL STATEMENTS

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position

June 30, 2015

Assets		
Current assets:		
Cash and cash equivalents	$	152,459,267
Accounts receivable, net		81,599,435
Inventories		4,390,162
Prepaid expenses		206,897
Investments		734,152,586
Total current assets		972,808,347
Non current assets:		
Investments		361,683,263
Restricted investments		272,653,337
Note receivable from Commonwealth		100,000,000
Capital assets-net of accumulated depreciation/amortization:		
Land		18,532,166
Construction in progress		12,108,747
Depreciable assets, including software		78,849,161
Total non current assets		843,826,674
Total assets		1,816,635,021
Deferred Outflows of Resources		
Deferrred outflows related to pension plan		79,027,503
Total assets and deferred outflows of resources	$	1,895,662,524
Liabilities		
Current liabilities:		
Liability for incurred but unpaid benefits and benefit adjustment expenses	$	158,983,144
Accounts payable		104,874,087
Accrued liabilities		32,816,323
Unearned premiums		21,246,597
Accrual for reimbursement of premiums		44,321,948
Securities lending obligations		99,428,582
Current portion of:		
Other notes payable		6,235,471
Obligation under capital lease		847,475
Liabilities payable from restricted assets:		
Note payable		209,733,336
Total current liabilities		678,486,963

(Continued)

See accompanying notes to basic financial statements.

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position

June 30, 2015

Non current liabilities:		
Liability for incurred but unpaid benefits and benefit adjustment expenses	$	601,165,804
Accrued liabilities		37,004,019
Accrual for reimbursement of premiums		36,155,285
Net pension liability		1,417,962,700
Other notes payable		16,291,907
Obligation under capital lease		27,667,586
Total non current liabilities		2,136,247,301
Total liabilities		2,814,734,264
Deferred Inflows of Resources		
Deferrred inflows related to pension plan		11,347,132
Commitments and Contingencies (Notes 21 and 22)		
Net Position		
Net investment in capital assets		58,447,635
Restricted		62,920,001
Unrestricted		(1,051,786,508)
Total net position		(930,418,872)
Total liabilities, deferred inflows of resources and net position	$	1,895,662,524

See accompanying notes to basic financial statements.

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2015

Operating revenues:		
Insurance premiums earned	$	625,677,923
Miscellaneous income, net		15,428,109
Less:		
Reimbursement of insurance premiums		(20,735,079)
Provision for uncollectible insurance premiums		(30,733,347)
Total operating revenues		589,637,606
Operating expenses:		
Compensation benefits		105,029,833
Medical benefits and legal fees		343,474,520
Credit for compensation benefits, medical benefits, and benefit adjustment expenses		(61,182,644)
Administrative expenses		141,846,919
Depreciation and amortization		7,242,692
Total operating expenses		536,411,320
Operating income		53,226,286
Non operating revenues (expenses):		
Interest and dividend income, net		42,782,273
Net decrease in fair value of investments		(13,376,351)
Net rebate from securities lending transactions		324,986
Interest on note payable, other notes payable and obligation under capital lease		(9,630,669)
Total non operating revenues, net		20,100,239
Revenue before transfers to other governmental agencies		73,326,525
Transfers to other governmental agencies		(106,755,532)
Change in net position		(33,429,007)
Net position at beginning of year, as previously reported		402,603,032
Adoption of new accounting standard (Note 2(d))		(1,299,592,897)
Net position at beginning of year, as restated		(896,989,865)
Net position at end of year	$	(930,418,872)

See accompanying notes to basic financial statements.

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

Year ended June 30, 2015

Cash flows from operating activities:		
Excess of collections over reimbursements of insurance premiums	$	571,893,975
Payments of compensation benefits		(95,941,514)
Payments of medical benefits and legal fees		(307,444,818)
Payments of administrative expenses		(154,099,812)
Net cash provided by operating activities		14,407,831
Cash flows from non capital financing activities:		
Transfers to governmental agencies		(89,769,042)
Decrease in securities lending obligations		(3,678,822)
Rebates of securities lending transaction costs		324,986
Net cash used in non capital financing activities		(93,122,878)
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(15,128,061)
Payments of note payable		(16,133,332)
Payments of other notes payable, net of imputed interest		(5,293,054)
Payments of obligation under capital lease		(765,416)
Payments of interest on notes payable and obligation under capital lease		(9,630,669)
Net cash used in capital and related financing activities		(46,950,532)
Cash flows from investing activities:		
Proceeds from sales and redemptions of debt and equity securities		2,053,670,427
Purchases of debt and equity securities		(1,863,398,655)
Decrease in investments held under securities lending transactions		501,026
Collections of interest and dividend income		43,248,317
Collections in excess of originations of employees loans		1,769,484
Issuance of note receivable from the Commonwealth		(100,000,000)
Net cash provided by investing activities		135,790,599
Net increase in cash and cash equivalents		10,125,020
Cash and cash equivalents at beginning of year		142,334,247
Cash and cash equivalents at end of year	$	152,459,267

See accompanying notes to basic financial statements.

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

Year ended June 30, 2015

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	53,226,286
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		7,242,692
Provision for uncollectible accounts		30,733,347
Pension expense		81,318,089
Changes in assets and liabilities that increase (decrease) cash flows from operating activities:		
Accounts receivable		(27,104,464)
Inventories		(1,113,376)
Prepaid expenses		83,698
Liability for incurred but unpaid benefits and benefit adjustment expenses		(51,846,651)
Accounts payable		(31,767,941)
Accrued liabilities		(277,137)
Unearned premiums		53,585
Accrual for reimbursement of premiums		(21,426,100)
Deferred outflows - contributions after measurement date		(24,714,197)
Net cash provided by operating activities	$	14,407,831

Summary of non-cash transactions:

Securities purchased but not yet received	$	19,442,435
Securities sold but not yet delivered	$	17,502,966
Net decrease in the fair value of investments (unrealized gains/losses)	$	32,841,354
Retirement of fully depreciated capital assets	$	218,697
Accrued contributions after measurement date - Act No. 32-2013	$	5,914,460
Due to other governmental agencies - Act No. 66-2014	$	16,986,490

See accompanying notes to basic financial statements.

(1) Organization

The State Insurance Fund Corporation (the Corporation) is a discretely presented component unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Law No. 45 of April 18, 1935, as amended, known as the Workmen Compensation Insurance Act (the Act 45-1935). The objectives of the law are to: protect workers against the effects of employment related accidents and illness; establish employers' responsibility to insure its employees; establish the type of insurance coverage; and regulate the insurance coverage to make it mandatory for employers. On October 29, 1992, the Act 45-1935 was amended by Law No. 83 to convert the agency into a governmental corporation and to establish the functions and responsibilities of the Corporation's Board of Directors and Administrator, and the Industrial Medical Advisory Board.

The Corporation provides insurance to public and private employees against injuries, disability or death due to work or employment related accidents, or because of illness suffered as a consequence of their employment.

(2) Summary of Significant Accounting Policies

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting policies.

The Corporation follows GASB Statement No. 55, *The Hierarchy of Generally Accepted Principles for State and Local Governments*, in the preparation of its financial statements.

Following is a description of the most significant accounting policies:

(a) Reporting Entity

The Governmental Accounting Standards Board (GASB) establishes the criteria used in determining which organizations should be included in these financial statements. The GASB's Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, requires the inclusion of government organizations for which the Corporation is financially accountable. Financial accountability is defined as 1) appointment of a voting majority of the component unit's board and either (a) the ability to impose will by the primary government or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or (2) fiscal dependency on the primary government. The Corporation does not have component units for which it is financially accountable.

The Corporation is a major component unit of the Commonwealth of Puerto Rico.

(b) *Basis of Accounting*

The Corporation accounts for insurance premiums, claim costs, acquisition costs, loss contingencies and other related costs in accordance with provisions of the GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended, which requires that the financial statements of the Corporation be presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

(c) *Basis of Presentation*

The Corporation's financial statements use the economic resources measurement focus and the accrual basis of accounting.

The statement of net position and the statement of revenues, expenses, and changes in net position report information on all activities of the Corporation. The statement of net position presents the Corporation's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual of all elements presented in a financial position statement reported as net position. Net position is reported in three categories:

- Net investment in capital assets, consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

- Restricted component of net position consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. As of June 30, 2015 the Corporation's restricted net assets amounted to $62.9 million. Refer to Note 13 for restrictions related to note payable.

- Unrestricted component of net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often is designated, in order to indicate that management does not consider it to be available for general operations. Unrestricted net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

The statement of revenues, expenses, and changes in net position presents information on how the Corporation's net position changed during the reporting period. The Corporation distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses are those that result from the Corporation providing the services that correspond to their principal ongoing operations, which include those that result from providing insurance coverage and compensation benefits to the injured and disabled workers, including death benefits. Revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The statement of cash flows shows changes in cash and cash equivalents, resulting from operating, non-capital and capital financing and investing activities, which include cash receipts and cash disbursements information.

(d) New Accounting Standards Adopted

For the year ended June 30, 2015, the Corporation implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (GASB Statement No. 68). GASB Statement No. 68 establishes financial reporting standards for state and local governmental pension plans, defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements that meet certain criteria and for state and local governmental non-employer contributing entities that have a legal obligation to make contributions directly to such pension plans. The requirements apply whether the government's financial statements are presented in stand-alone financial reports or are included in the financial reports of another government. GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined pension plans, GASB Statement No. 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employer service. Note disclosure and required supplementary information requirements about pensions are also addressed. As a result of the implementation the Corporation recognized its proportionate share of The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System) collective net pension liability of $1,418 million and its beginning net position has been restated by $1,299.6 million to reflect the required adjustments of GASB Statement No. 68. In addition, the Corporation recognized deferred outflows of resources of $79 million, deferred inflows of resources of $11.3 million and pension expense of $81.3 million. It should be noted that as of the date of issuance of the accompanying financial statements, the Commonwealth has not issued audited information to implement the

requirements of GASB Statement No. 68. Therefore, preliminary unaudited amounts were used to reflect the required adjustments and related disclosures of GASB Statement No. 68.

For the year ended June 30, 2015, the Corporation implemented GASB Statement No. 69, Government Combinations and Disposals of Government Operations (GASB Statement No. 69). GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB Statement No. 69 requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. GASB Statement No. 69 requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. GASB Statement No. 69 requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate those transactions. The implementation of GASB Statement No. 69 did not have an impact on the Corporation's financial statements.

For the year ended June 30, 2015, the Corporation implemented GASB Statement No. 70, Accounting and Financial Reporting for Non-exchange Financial Guarantees (GASB Statement No. 70). GASB Statement No. 70 requires a state or local government guarantor that offers a non-exchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of GASB Statement No. 70 did not have an impact on the Corporation's financial statements.

For the year ended June 30, 2015, the Corporation implemented GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An amendment of GASB Statement No. 68 (GASB Statement No. 71). GASB Statement No. 71 requires a state or local government employer (or non-employer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or non-employer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, GASB Statement No. 68 requires that the government recognize its contribution as a

deferred outflow of resources. In addition, GASB Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or non-employer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or non-employer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of GASB Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported. The financial reporting impact from the implementation of GASB Statement No. 71 was the recognition of deferred outflows of resources on pension plan in the Corporation's financial statements of $30,628,657 as of June 30, 2015.

(e) Revenue Recognition and Unearned Premiums

The Corporation recognizes as income the subscribed premiums, which include the preliminary premiums assessed at the beginning of the fiscal year plus additional premiums imposed as a result of the final settlement of premiums under the insurance policy during the year and an estimate for additional premiums not yet imposed. Premiums are based on individual employers' reported payroll ledgers using predetermined insurance rates based on employers' risk classifications. The regular policies are issued for a one–year period consistent with the Corporation's fiscal year, which runs from July 1 to June 30. Incidental policies are issued to cover special risks over a pre-determined period of time. Unearned premiums represent the remaining portion at the end of the fiscal year, which is attributed to the unexpired term of the incidental policies issued during the fiscal year.

Insurance premiums due to the Corporation are recorded as insurance premiums receivable, net of the allowance for uncollectible accounts. Premiums receivable consist of both billed and unbilled amounts. Unbilled amounts include premiums for policies, which have not been assessed plus an estimate for additional premiums that are expected to be imposed as a result of the final settlement of premiums under the insurance policy.

The estimates made for the additional and the reimbursable premiums are based on previous experience. The difference between the estimated and the actual amount of the premiums and the reimbursable premiums is recorded in the year when it is determined. The estimate of additional premiums is determined by management and covers the result of the final settlement of premium under the policies and through the audit of the employers' payroll ledgers. The accrual of premiums to be reimbursed represents an estimate actuarially determined based on the historical and projected

results of the settlement of premiums under the policies. These amounts are estimates, and while the Corporation believes such amounts are reasonable, there can be no assurance that the amounts ultimately received or disbursed will equal the recorded amounts.

The accrual for reimbursement of premiums was discounted to reflect the present value of future reimbursable premium payments using a discounting factor of 4.12% at June 30, 2015. Management believes that discounting such liability results in a better matching of costs and revenues since reimbursable premiums have a long payment cycle.

Current and non current portions of the liability for reimbursement of premiums are based on projected actuarially determined payments.

(f) Policy Acquisition Costs

Acquisition costs consist of salaries and certain underwriting expenses, which are primarily related to the issuance of new policies. These costs are expensed as incurred since regular policies are issued for a one–year period, which is consistent with the Corporation's fiscal year, July 1^{st} to June 30^{th}. Acquisition costs related to incidental policies with terms beyond one year are deemed to be insignificant and are charged to expense as incurred.

(g) Reinsurance

The Corporation does not use reinsurance agreements to reduce its exposure to large losses.

(h) Incurred but Unpaid Benefits and Benefit Adjustment Expenses

Benefit expenses are recorded as incurred. The Corporation establishes liabilities for estimated incurred but unpaid benefits and benefit adjustment expenses based on the ultimate estimated cost of settling the benefits.

Incurred but unpaid benefits and benefit adjustment expenses include: (a) individual case estimates for reported cases (b) aggregate accrual estimates for reported and unreported cases based on past experience modified for current trends, and (c) an estimate of expenses for investigating and settling cases. The liabilities for cases reported which have not been adjudged and cases incurred but not yet reported are estimated by an independent actuary. The estimated liability also includes cases under reconsideration or on appeal before the Industrial Commission of Puerto Rico, a governmental agency, for additional medical treatment or benefits.

The liability for incurred but unpaid benefits and benefit adjustment expenses was discounted to reflect the present value of future benefit payments using a discounting factor of 3.85% at June 30, 2015. Management believes that discounting such liability results in a better matching of costs and revenues since compensation benefits have a long payment cycle.

Management believes that the liability for incurred but unpaid benefits and benefit adjustment expenses, actuarially determined at June 30, 2015, is a reasonable estimate of the ultimate net cost of settling benefits and benefit expenses incurred. Because actual benefit costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, inflation, and other social and economic factors, the process used in computing the ultimate cost of settling benefits and expenses for administering benefits is necessarily based on estimates. The amount ultimately paid may be above or below such estimates. Adjustments resulting from changes in estimates of these liabilities are charged or credited to operations in the period in which they occur.

Current and non current portions of the liability for estimated incurred but unpaid benefits and benefit adjustment expenses are based on projected actuarially determined payments.

(i) Securities Purchased under Agreements to Resell

From time to time, the Corporation enters into purchases of securities under agreements to resell (resell agreements). The amounts advanced under these agreements generally represent short–term loans and are reflected as an asset. The securities underlying these agreements are usually held by the broker or his/her agent, with whom the agreement is transacted.

(j) Investments

Investments mainly include U.S. government and agencies' obligations, mortgage-backed securities, and corporate debt and equity obligations. Investments in equity securities with readily determinable fair values and all investments in debt securities are carried at fair value. Money market investments with a remaining maturity at time of purchase of one year or less are carried at cost. Investment positions in 2a–7 like external investment pools are carried at the pools' share price. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. The Corporation has private equity investments, whose fair values have been estimated in the absence of readily

determinable fair values. This estimate is based on information provided by the underlying fund managers.

Securities transactions are accounted for on the trade date. Realized gains and losses from the sale of securities and unrealized changes in the fair value of outstanding securities are included in net increase (decrease) in fair value of investments. Realized gains and losses are computed as the difference between the proceeds of the sale and the original cost of the investment sold. Gains and losses on the sale of securities are determined based on the specific identification method.

(k) Securities Lending Transactions

The Corporation accounts for and reports its security lending transactions in accordance with the provisions of GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* as amended. This statement establishes standards of accounting and financial reporting for securities lending transactions in which governmental entities (lenders) transfer their securities to broker–dealers and other entities (borrowers) for collateral and simultaneously agree to return the collateral for the same securities in the future.

Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if the Corporation has the ability to pledge or sell them without a borrower default. Liabilities resulting from these securities lending transactions also are reported in the statement of net position. Securities lending transactions collateralized by letters of credit or by securities that the Corporation does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the statement of net position.

(l) Allowance for Doubtful Accounts

The allowance for uncollectible insurance premiums and other receivables is an amount that management believes will be adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of the collectability of the receivables and prior credit loss experience. Because of uncertainties inherent in the estimation process, the related allowance may change in the future.

(m) Inventories

Inventories are stated at cost (first–in, first–out method).

(n) Capital Assets

Capital assets are stated at cost. Depreciation and amortization expense is computed using the straight–line method over the estimated useful lives of the assets, or in the case of assets under capital lease, over the term of the lease, whichever is shorter. The Corporation records as capital expenditures, assets with an individual cost of more than $100. The useful lives of these assets are as follow:

Description	Useful Lives
Buildings and improvements	3-50 years
Medical and office equipment	3-10 years
Software and related assets	3 -5 years
Motor vehicles	5 years
Assets under capital leases	Lease term

Expenditures for repairs and maintenance, which do not extend the useful lives of the assets, are charged to operations in the year incurred. At the time capital assets are sold or otherwise disposed, the cost and related accumulated depreciation are removed from the books and the resulting gain or loss, if any, is credited or charged to operations.

The Corporation capitalizes interest cost incurred in the construction of significant real estate projects, which consist primarily of facilities for its own use. The amount of interest cost to be capitalized for qualifying assets is intended to be that portion of the interest cost incurred during the assets' acquisition periods that theoretically could have been avoided if outlays for the assets had not been made. The interest rate for capitalization purposes is based on the rates applicable to borrowings outstanding during the period. Interest cost capitalized for the year ended June 30, 2015 amounted to $93,447.

(o) Accounting for the Impairment of Capital Assets

The Corporation accounts for asset impairment under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This statement establishes accounting and financial reporting standards for impairments of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or

change in circumstances are outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the Corporation should be reported at the lower of carrying value or fair value.

(p) Deferred Outflows and Inflows of Resources

The Corporation reports deferred outflows and inflows of resources in addition to assets and liabilities. A deferred outflow of resources is a consumption of net position by the Corporation that is applicable to a future reporting period. A deferred inflow of resources represents an acquisition of net position by the Corporation that is applicable to a future period. Pension related deferred outflows and inflows of resources may include changes in proportionate share contributions, contributions to the pension plan subsequent to the measurement date, differences between expected and actual experience in the total pension liability and net difference between projected and actual earnings on pension plan investments.

(q) Compensated Absences

Compensated absences, such as unpaid vacation and sick leave pay, are accrued when incurred using the pay or salary rates in effect at the statement of net position's date. The employees of the Corporation are granted 30 days of vacation and 18 days of sick leave annually. An additional amount is accrued for certain salary related benefits associated with the payment of compensated absences. In the event of employee resignation, an employee is reimbursed for accumulated vacation and sick leave days. As a result of Act No.66 of June 17, 2014, some of these excess accumulations are no longer payable to the employees (see Notes 10 and 18 for further discussion).

(r) Termination Benefits

The Corporation accounts for termination benefits in accordance with the provisions of GASB Statement No. 47, *Accounting for Termination Benefits*. This Statement establishes accounting standards for termination benefits. Pursuant to this Statement, the Corporation should recognize a liability and expense for voluntary termination benefits (for example, early-retirement incentives) when the offer is accepted and the amount can be estimated. At June 30, 2015 no formal voluntary termination benefits were incurred.

(s) Pensions

The Corporation accounts for pension costs under the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Retirement System, and additions to/deductions from the Retirement System's fiduciary net position have been determined on the same basis as they are reported by the Retirement System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(t) Postemployment Benefits Other Than Pensions

The Corporation accounts for postemployment benefits other than pensions (OPEB) under the provisions of the GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement requires a systematic, accrual–basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. GASB No. 45 allows employers to amortize the portion of the cost attributed to past service over a period not to exceed thirty (30) years.

(u) Income Taxes

The Corporation, as a major component unit of the Commonwealth, is exempt from the payment of income taxes.

(v) Statement of Cash Flows

The accompanying statement of cash flows is presented in accordance with the provisions of GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*. The provisions of governmental accounting standards require that the

direct method be used to present the funds inflows and outflows of the Corporation. For purposes of the statement of cash flows, the Corporation considers all highly liquid debt instruments with maturities of three months or less when purchased to be cash equivalents.

(w) Future Adoption of Accounting Pronouncements

The GASB has issued the following Statements that have effective dates after June 30, 2015:

- In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB Statement No. 72). GASB Statement No. 72 defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information should be disclosed in the notes to the financial statements. The provisions of GASB Statement No. 72 are effective for fiscal years beginning after June 15, 2015.

- In June 2015, GASB issued Statement No. 73, Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provision of GASB 67 and GASB 68 (GASB Statement No. 73). GASB Statement No. 73 provides guidance on assets accumulated for pension plans that are not administered through a trust and provides clarity on certain provision of GASB Statement No. 67 and GASB Statement No. 68. The requirements for GASB Statement No. 73 are effective for fiscal years beginning after June 15, 2015, except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016.

- In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB Statement No. 74). GASB Statement No. 74 establishes financial reporting standards to state and local governmental other postemployment benefit ("OPEB") plans. The requirements of GASB Statement No. 74 are effective for fiscal years beginning after June 15, 2016.

- In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement No. 75). GASB Statement No. 75 establishes accounting and financial reporting standards for OPEB that is provided to employees of state and local governmental employees. The requirements of GASB Statement No. 75 are effective for fiscal years beginning after June 15, 2017.

- In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB Statement No. 76). GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction of other event is not specified within the source of authoritative GAAP. The requirements of GASB Statement No. 76 are effective for fiscal years beginning after June 15, 2015.

- In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB Statement No. 77). GASB Statement No. 77 requires state and local governments to disclose information about tax abatement agreements. GASB Statement No. 77 requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues. GASB Statement No. 77 is effective for financial statements for periods beginning after December 15, 2015. GASB Statement No. 77 has no impact on the Corporation's basic financial statements.

- In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Plans* (GASB Statement No. 78). GASB Statement No. 78 addresses a practice issue regarding the scope and applicability of GASB Statement No. 68, associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. GASB Statement No. 78 amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or

collectively with other state or local governmental employers that provide pensions through the pension plan). GASB Statement No. 78 establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. GASB Statement No. 78 is effective for financial statements for periods beginning after December 15, 2015.

- In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants* (GASB Statement No. 79). GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. GASB Statement No. 79 establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. GASB Statement No. 79 is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015.

- In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Components Units, an Amendment of GASB Statement No. 14* (GASB Statement No. 80). GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. GASB Statement No. 80 is effective for reporting periods beginning after June 15, 2016. GASB Statement No. 80 has no impact on the Corporation's financial statements.

- In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB Statement No. 81). GASB Statement No. 81 provides recognition and measurement guidance for governments that benefit from irrevocable split-interest agreements. It addresses when these types of arrangements constitute an asset for accounting and financial reporting purposes when the resources are administered by a third party. It also provides expanded guidance for circumstances in which the government holds the assets. GASB Statement No. 81 is effective for reporting periods beginning after December 15, 2016. GASB Statement No. 81 has no impact on the Corporation's financial statements.

- In March 2016, GASB issued Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73* (GASB Statement No. 82). The objective of GASB Statement No. 82 is to address certain issues that have been raised with respect to GASB Statement No. 67, GASB Statement No. 68, and GASB Statement No. 73. Specifically, GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB Statement No. 82 is effective for reporting periods beginning after June 15, 2016, except for the requirements related to the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

Management is evaluating the impact that these Statements will have on the Corporation's basic financial statements.

(x) *Risk Management*

The Corporation is exposed to the risk of loss from torts, theft, damages to, and destruction of assets, errors and omissions, employee injuries and illnesses, natural disasters, environmental and other losses. Commercial insurance coverage is obtained for claims that may arise from such matters. The commercial insurance coverage is negotiated by the Department of the Treasury of the Commonwealth of Puerto Rico,

and the cost is paid by the Corporation. No additional payments were made after the annual insurance costs were determined.

(y) ***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The accounts requiring the use of significant estimates include certain receivables, liability for incurred but unpaid benefits and benefit adjustment expenses, unearned premiums reserve, accrual for reimbursement of premiums, pension and OPEB liabilities, deferred outflows and inflows of resources and useful lives of property and equipment. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

(3) Cash and Cash Equivalents

The Corporation's cash and cash equivalents as of June 30, 2015 are comprised of the following:

Description		
Cash on hand	$	964,154
Cash in commercial banks		47,524,034
Total cash on hand and in banks		48,488,188
Interest bearing deposit accounts (IBA's) with GDB:		
Due on demand		44,033,992
Cash equivalents-investments (see Note 4)		59,937,087
Total	$	152,459,267

Custodial Credit Risk

Custodial credit risk related to deposits is the risk that in the event of a financial institution failure, the Corporation's deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance ($250,000 at June 30, 2015).

At June 30, 2015, all securities pledged by depository institutions as collateral are held by a trustee of the Department of the Treasury of the Commonwealth. As of June 30, 2015 the Corporation had approximately $45.3 million in depository balance with financial institutions, which were insured and/or collateralized.

Interest bearing deposits with GDB are uninsured and uncollateralized. These deposits are exposed to custodial credit risk. Please refer to Note 23.

On April 6, 2016, the Governor signed Act 21-2016, known as the "Puerto Rico Emergency Moratorium and Financial Rehabilitation Act" (the Act 21-2016). Section 201 and Section 203 of the Act, respectively, authorizes the Governor to declare a state of emergency for GDB in order to protect the health, safety and welfare of the residents of the Commonwealth and to take any and all actions that are reasonable and necessary to allow GDB to continue carrying out its operations.

On April 8, 2016, pursuant to Section 201 of the Act 21-2016, the Governor signed an Executive Order which declared that GDB is in a state of emergency and announced the commencement, as of the date of the Executive Order, of an emergency period as defined in the Act 21-2016. The Executive Order provides the following:

(1) GDB is instructed to honor withdrawal, payment, and transfer requests submitted to GDB by the agencies, public corporations and various government instrumentalities including the Corporation, only if (i) they are reasonable and necessary to fund the provision of essential services, relying on the certifications provided pursuant to Section 203(c)(ii) and (iii) of the Act and (ii) based on the depositor's cash flow needs, it does not project to have an alternate source of funds available from which to pay for such essential services.
(2) The creation of the "GDB Disbursements Committee", comprised of one representative of each of the Department of the Treasury, the Office of Management and Budget of the Commonwealth (OMB) and GDB. This Committee will evaluate if disbursements are considered necessary to fund the provision of essential services.
(3) GDB is authorized to impose weekly limitations on the aggregate amount of all withdrawals and transfers of deposits in order to preserve its liquidity.
(4) To the extent that the total amount of withdrawal, payment, and transfer requests, exceed the applicable weekly limitation, such withdrawal, payment, and transfer requests, shall be prioritized by GDB as provided in the Executive Order.
(5) All GDB depositors are prohibited from printing or writing new checks or similar instruments creditable against their accounts at GDB unless they obtain a temporary waiver from GDB. All new checks or similar instruments printed or written after the date of the Executive Order in violation of this provision shall not be honored and shall be null and void. Any person that intentionally issues any check or similar instrument in

violation of Section 203(h) of the Act 21-2016 shall be subject to the criminal penalties set forth therein.

(6) Pursuant to Section 203 of the Act 21-2016, (a) the disbursement of any and all loans and advances by GDB, and (b) the payment of any and all obligations guaranteed by GDB are temporarily suspended.

The Executive Order shall remain in full force and effect until the earlier of (i) June 30, 2016, or (ii) revocation of the Executive Order.

No adjustments have been made to the carrying value of financial instruments maintained with GDB.

Foreign Current Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the value of a deposit. Cash in foreign currency present minimal foreign currency risk at June 30, 2015. See Note 4 for additional information related to credit risk, foreign currency risk and custodial credit risk on cash equivalent investments.

(4) Investments

The Board of Directors (BOD) of the Corporation has enacted the Statement of Investment Policy, Guidelines and Objectives (the SIPGO) (amended on December 3, 2013), with the objective of providing general and specific guidance for the maximization of resources available for the payment of benefits to injured workers as the pervasive goal of the workers' compensation coverage of its insurance program. SIPGO sets as the primary objective for the available funds, to maximize the yield of invested assets, while having the adequate liquidity to pay obligations as they become due. The strategic objective is accomplished through a proper mix of adequate time horizon, risk tolerance and return expectation, and is achieved through strategic assets allocation. SIPGO provides guidance for the strategic assets allocation including the internally managed short term funds, securities selection and related restrictions; sets the responsibilities of the BOD, the Corporation's management, investment consultants, portfolio managers, and custodians. The SIPGO establishes standards for review and communication of compliance with the prevailing policies and procedures. The SIPGO also provides that the Finance Committee of the BOD (the Finance Committee) is responsible for implementing and monitoring the investment program of the Corporation. The Finance Committee meets on a quarterly basis.

The SIPGO, as amended, allows management to purchase or enter into the following investment instruments:

- United States Government and agencies obligations

- Obligations of the Commonwealth, its agencies, municipalities, public corporations and instrumentalities
- Government National Mortgage Association (GNMA)
- Mortgage pass–through guaranteed by United States Government agencies other than GNMA, such as Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA), among others
- Mortgage and asset–backed securities
- Common and preferred stocks
- Corporate bonds and notes (convertible or non–convertible)
- Money market funds and bank–sponsored short–term investment funds
- Resell agreements
- Commercial paper
- Non-US Government and corporate issues
- Collateralized mortgage obligations (CMOs)
- Senior secured loans
- Certificates of deposit
- Principal protected structured notes
- Obligations of life insurance companies
- Shares in institutional shares of mutual funds
- Fixed income exchange-traded funds (ETFs)
- Options, futures and interest–rate swap agreements for hedging and risk control purposes, as well as for the creation of synthetic products, which qualify under any of the foregoing investment categories
- Open–end mutual funds with acceptable underlying assets and rated AAA by Standard & Poor's or AAA by Moody's
- Puerto Rico Government Investment Trust Fund (PRGITF)
- Securities lending transactions

The SIPGO, as amended, establishes limitations and other guidelines on amounts to be invested in the aforementioned investment categories and by issuer/counterparty and on exposure by country. In addition, such policy provides guidelines on the institutions with which investment transactions can be entered into. The BOD of the Corporation will determine, from time to time, other transactions that the Corporation may enter into. Certain investment transactions that are generally considered to carry a greater than normal risk, require the prior approval of Government Development Bank for Puerto Rico (GDB), a component unit of the Commonwealth, before being executed.

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

June 30, 2015

The following table summarizes the type and maturity of investments held by the Corporation at June 30, 2015. Expected maturities will differ from contractual maturities, because counter parties may have the right to call or prepay obligations with or without call or prepayment penalties. As of June 30, 2015 more than 5% of the Corporation's investments are in municipal bonds from the issuer GDB (7%).

June 30, 2015					
Investment Type	**Within One Year**	**After One to Five Years**	**After Five to Ten Years**	**After Ten Years**	**Total**
U.S. Treasuries	$ 1,807,506	40,024,030	25,933,049	2,908,798	70,673,383
U.S. Treasury Bills	1,119,998	—	—	—	1,119,998
U.S. sponsored agencies bonds and notes:					
Federal Home Loan Bank (FHLB)	—	3,054,954	—	—	3,054,954
Federal Home Loan Mortgage Corporation (FHLMC)	—	2,333,496	—	—	2,333,496
Federal National Mortgage Association (FNMA)	—	1,905,974	1,623,462	—	3,529,436
Federal Farm Credit Bank (FFCB)	—	1,044,260	1,792,425	—	2,836,685
Mortgage-backed securities:					
Government National Mortgage Association (GNMA)	—	—	193,803	18,505,582	18,699,385
FNMA	—	522,403	—	27,923,164	28,445,567
FHLMC	—	—	409,002	18,910,605	19,319,607
Collateralized Mortgage Obligations (CMO's) issued and/or guaranteed by:					
GNMA	—	—	—	2,556,868	2,556,868
FNMA	—	—	—	20,681,549	20,681,549
FHLMC	—	—	—	19,004,422	19,004,422
Asset-backed securities	—	2,108,885	—	331,582	2,440,467
Corporate bonds and notes	10,991,384	153,219,375	134,288,793	33,368,878	331,868,430
Foreign government and corporate bonds and notes	277,773	540,439	13,677,663	937,575	15,433,450
Municipal bonds	6,265,594	101,372,424	5,163,140	—	112,801,158
Money market funds	505,370	—	—	—	505,370
External investments pool-fixed-income securities	34,087,095	—	—	—	34,087,095
Investments held under securities lending transactions:					
Interest bearing deposits	52,500,000	—	—	—	52,500,000
Resell agreements	36,433,815	—	—	—	36,433,815
Commercial paper	7,494,775	—	—	—	7,494,775
U.S. agency discounted notes	2,999,992	—	—	—	2,999,992
Other	801,577	—	—	—	801,577
Total debt securities and fixed-income external investment pools	$ 155,284,879	306,126,240	183,081,337	145,129,023	789,621,479
Equity securities					356,030,072
Exchange traded funds					142,556,915
Private equity funds -equity securities:					
Guayacán Private Equity Fund L.P. II					8,833,035
Guayacán Fund of Funds III, L.P.					29,812,535
Guayacán Fund of Funds IV, L.P.					3,271,694
US Government Properties Income & Growth Fund, L.P.					29,172,822
McCoy Investments II, L.P.					8,585,674
Palladium Equity Partners IV, L.P.					12,521,111
Pluscios Fund LLC					48,020,936
Total					$ 1,428,426,273

As of June 30, 2015 investments were classified as current and non–current in the accompanying statement of net position as follows:

Description		
Current assets:		
Cash equivalents	$	59,937,087
Investments in debt and equity securities		734,152,586
Total current assets		794,089,673
Non-current assets		634,336,600
Total	$	1,428,426,273

The Corporation's investments presented as cash equivalents as of June 30, 2015 are comprised of the following:

Description		
Interest bearing deposits held under securities lending transactions:		
Certificates of deposit with other banks, due within three months	$	16,500,000
Investments in debt securities held under securities lending transactions:		
U.S. agency discounted notes		2,999,992
Commercial paper, due within three months		3,497,910
Resell agreements, due overnight		36,433,815
		42,931,717
Investments in:		
Money market funds		505,370
Total	$	59,937,087

Investments in fixed–income external investment pools include approximately $1,040,000 in 2015, invested with the Puerto Rico Government Investment Trust Fund (the PRGITF), a government–sponsored pool, which is administered by GDB. The PRGITF may purchase only high quality securities denominated in U.S. dollars that the investment advisors believe present minimal credit risk. The PRGITF had an average maturity of less than 60 days; accordingly, they were presented as investments with maturity of less than one year. The Corporation was exposed to custodial credit risk. This pool is subject to regulatory oversight by the Commissioner of Financial Institutions of Puerto Rico. The fair value of the pool is the same as the fair value of the pool shares.

The fair value of investments in limited partnerships and alternative investments as of June 30, 2015 amounted to approximately $173.6 million. The fair values of these investments have been estimated by the corresponding general partner or fund manager of these partnerships and disclosed in its respective separate audited financial statements. The allocations of net gain and net loss to the limited partners are based on certain percentages, as established in the limited partnership agreements. The investments in limited partnerships were as follows:

- During the fiscal year 2015, the Corporation made contributions of $571,429 to the Guayacán Private Equity Fund L.P. II, a Delaware limited partnership created by Grupo Guayacán, Inc., as General Partner, that has a total amount invested at June 30, 2015 of $8,540,374. The Corporation has a total commitment of $10.0 million. The Corporation received no cash distributions during the fiscal year 2015. This fund seeks to provide investors with a superior investment return and extensive diversification by investing in nineteen (19) private equity investment partnerships in the United States and Europe. This fund also invests a portion of its assets in a Puerto Rico based private equity investment entity.

- During the fiscal year 2015, additional contributions of approximately $5,338,000 were made in the Guayacán Fund of Funds III, L.P., a limited partnership organized in April 2007, pursuant to the laws of the State of Delaware, bringing the amount invested at June 30, 2015 to $33,199,959. The Corporation has a total commitment of $40.0 million. The Corporation received cash distributions of approximately $7,007,000 during fiscal year 2015. This partnership intends to seek out, invest in, and add value to companies, which will be based or operating in Puerto Rico or in companies whose products or services are targeted at the U.S. Hispanic market, with specific interest in those companies where Advent-Morro's Equity Partners, Inc. Puerto Rico contact, know–how and track record can be leveraged to enhance investment selection and post–investment value-add. Guayacán Private Fund of Funds III, L.P. will strive to have a balanced mix of portfolio investments primarily focusing on later stage opportunities such as: expansion financing, leveraged buyouts, management buyouts, and recapitalizations. This partnership may invest in de–novo companies that are being set up to enter established industries via market consolidation opportunities and/or internal growth.

- During the fiscal year 2015, the Corporation invested approximately $2,765,000 in the U.S. Government Properties Income & Growth Fund, L.P., a limited partnership organized in August 2011, pursuant to the laws of the State of Delaware. The Corporation has a total commitment of $25.0 million. The Corporation also received distributions of approximately $1,464,000 during 2015, bringing the amount invested at June 30, 2015 to $25,102,231. This partnership is a real estate fund that targets

investments in assets leased to the U.S. General Services Administration and other federal leases located in the United States to provide current income and potential asset appreciation.

- During the fiscal year 2015, the Corporation invested approximately $2,100,000 in McCoy Investments II, L.P., a limited partnership organized in August 2011, pursuant to the laws of the State of Delaware, and had a return of capital of approximately $1,695,000 in 2015, bringing the amount invested to $9,554,326 at June 30, 2015. The Corporation has a total commitment of $15.0 million. This partnership was organized to invest in other pooled investment portfolio funds investing primarily in private equity, including investments in U.S. and non-U.S. venture capital, leveraged buyout, distressed, turnaround, expansion capital, mezzanine and special situation funds.

- During the fiscal year 2014, the Corporation invested $4,981,986 in a new limited partnership Palladium Equity Partners IV, L.P. (PEP IV), a partnership established in April 2014 by Palladium Equity Partners, LLC, a private investment firm focused on investments in the fast-growing U.S. Hispanic marketplace. PEP IV will invest in lower-middle market companies – particularly founder-owned enterprises – and with a focus on the U.S. Hispanic market. The Corporation made additional contributions of $8,370,498 during 2015. The Corporation received distributions of $171,896 during fiscal year 2015. The Corporation has a total commitment of $31.0 million.

- During the fiscal year 2014, the Corporation made a new alternative investment in senior secured loans managed by Eaton Vance Management. Eaton Vance Institutional Senior Loan Fund (Eaton Vance Fund) is a separate investment fund of Eaton Vance Institutional Funds an exempted company incorporated with limited liability in the Cayman Islands. The Eaton Vance Fund constitutes a separate portfolio of assets held by Eaton Vance Institutional Funds and consists of one or more classes of the Company attributable to the Fund. The Fund's investment objective is to provide a high level of current income as is consistent with the preservation of capital, by investing in a portfolio primarily of senior floating rate loans. The commitment in the Eaton Vance Fund is of $46.5 million. During 2015 the Corporation invested approximately $1,655,000 in the fund and received dividends and redemptions of approximately $14,000,000.

- During the fiscal year 2014, the Corporation made a new alternative investment in a diversified hedge managed by Pluscios Fund LLC, a Delaware limited liability corporation. The commitment in the Pluscios Fund LLC is of $46.5 million. During 2015 no additional contributions or distributions were made or received from the fund.

- During the fiscal year 2015, the Corporation made an investment in the Guayacán Fund of Funds IV, LP, a Delaware limited partnership organized in February 23, 2015 by Grupo Guayacán, Inc. as General Partner by contributing $3,500,000. The Corporation has a total commitment of $50.0 million. The Partnership's purpose is to achieve superior rates of return by investing in a diversified portfolio of United States and International private equity investment partnerships and other limited liability vehicles that operate as pooled investment vehicles that, in turn, primarily make equity and equity-related investments in private businesses. Partner's capital at June 30, 2015 amounted to $3,271,694.

At June 30, 2015, the Corporation has variable-rate interest investments, which reset in the frequency shown below, at 100% of an interest rate index plus a spread, as follows:

Investment Type	Reset		
Mortgage-backed securities:			
GNMA	Monthly	$	391,325
CMO's issued and/or guaranteed by:			
GNMA	Monthly		2,055,651
FNMA	Monthly		9,982,792
FHLMC	Monthly		11,708,166
Corporate bonds and notes	Quarterly		16,486,942
Corporate bonds and notes	Semiannually		3,637,489
US Treasury bonds and notes	Semiannually		2,452,150
Investments held under securities lending transactions:			
Interest bearing deposits	Daily		18,000,000
		$	64,714,515

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SIPGO is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable investment grade fixed income and equity securities. As of June 30, 2015, the SIPGO had established the optimum or efficient allocation for the total portfolio in accordance with the time horizon, risk tolerance, return expectations, and assets class preferences as follows:

	% Allocation Limits		
Assets Classes	Lower	Target	Upper
Stocks:	**20.0%**	**25.0%**	**25.0%**
Domestic stocks	20.0%	22.5%	25.0%
International stocks	0.0%	2.5%	5.0%
Fixed income:	**40.0%**	**40.0%**	**50.0%**
Domestic bonds	25.0%	31.5%	50.0%
Selective high yield	6.0%	6.0%	8.0%
Non US Bonds	2.5%	2.5%	5.0%
Cash and cash equivalents	**0.0%**	**0.0%**	**5.0%**
Alternative investments	**25.0%**	**25.0%**	**30.0%**
Private equities	**8.0%**	**10.5%**	**15.0%**

The SIPGO limits its exposure to interest rate risk by setting duration of the investment portfolio of the fixed income assets not to exceed more than 25% of the duration of the specific market selected as a benchmark. The duration is a measure of a debt investment's exposure to fair value changes arising from changes in the interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price. As of June 30, 2015 the duration of a fixed income portfolio amounted to 5.26 years.

The credit risk related to investments is the risk that debt securities in the Corporation's portfolio will decline in price or fail to make principal and interest payments when due because the issuer of the security experiences a decline in the financial condition. The Corporation limits its credit risk by investing principally in high quality investments (rated BBB or better, according to Standard and Poor's or other equivalent rating agencies when maturities are longer than a year). Up to 20% of the total fixed income portfolio may be invested at any time in Selective High Yield securities (i.e. securities rated below BBB), but never lower than B. BBB is the lowest of investment grade ratings.

A minimum of 10% of all funds shall be placed in Puerto Rico investments such as:

- Certificates of deposit of GDB, or any other type of deposit with GDB
- Securities issued by GDB; or any other investment previously approved in writing by GDB that is, in the judgment of GDB, an investment that positively impacts the economic development of Puerto Rico.

In addition, the Corporation restricts investment in certain securities to avoid concentration and/or increase duration.

On December 19, 2013 the Corporation entered into a Note Purchase Agreement (the Agreement) with GDB whereby the Corporation agreed to purchase from GDB Senior Guaranteed Notes (the Notes) in an aggregate amount of $110,000,000 which are guaranteed by the Commonwealth of Puerto Rico's full faith, credit and taxing power pursuant to Act No. 12 of the Legislature of Puerto Rico, approved on May 9, 1975, as amended (the Guaranty Act). The notes bear interest, payable monthly, in arrears, on the first day of each month at 8% per annum, commencing on February 1, 2014. The notes mature as follow:

Maturity Date (December 1)		**Principal Amount**
2017	$	40,000,000
2018		30,000,000
2019		40,000,000

The Notes are carried at fair value amounting to $98,461,000 at June 30, 2015 and are presented as municipal obligations. Since the Notes are a private placement between the Corporation and GDB, fair value is not readily available and is estimated on a monthly basis by the investee using as reference the return of the Commonwealth general obligations with similar terms. Due to subsequent events, such as Act 21-2016, known as the "Puerto Rico Emergency Moratorium and Financial Rehabilitation Act" and Executive Order issued by the Governor of the Commonwealth pursuant to this Act described in Note 3 and subsequent lowering of the credit rating of the senior unsecured debt of the GDB to D (default) by Standard & Poor's Global Rating, described further below, the Corporation's external investment consultants lowered the Notes estimated fair value on May 2016 to 67.56% or $74,316,000. Please refer to Notes 3, 23, and 24.

All of the Corporation's investments in U.S. Treasury securities and mortgage–backed securities guaranteed by GNMA carry the explicit guarantee of the U.S. government and represent no risk therefore have been excluded from the following table. The credit quality ratings for investments in debt securities, excluding U.S. Treasury securities and mortgage–backed securities guaranteed by GNMA, at June 30, 2015 are as follows:

June 30, 2015							
	Credit Risk Rating						
Investment Type:	**AAA to A-**	**BBB+ to BBB-**	**BB+ to B-**	**CCC+ to CCC-**	**CC**	**Not Rated**	**Total**
U.S. sponsored agencies bonds and notes:							
Federal Home Loan Bank (FHLB)	$ 3,054,954	—	—	—	—	—	3,054,954
Federal Home Loan Mortgage Corporation (FHLMC)	2,333,496	—	—	—	—	—	2,333,496
Federal National Mortgage Association (FNMA)	3,529,436	—	—	—	—	—	3,529,436
Federal Farm Credit Bank (FFCB)	2,836,685	—	—	—	—	—	2,836,685
Mortgage-backed securities:							
FNMA	28,445,567	—	—	—	—	—	28,445,567
FHLMC	19,319,607	—	—	—	—	—	19,319,607
Collateralized mortgage obligations (CMO's) issued and/or guaranteed by:							
FNMA	20,681,549	—	—	—	—	—	20,681,549
FHLMC	19,004,422	—	—	—	—	—	19,004,422
Asset-backed securities	2,108,885	331,582	—	—	—	—	2,440,467
Corporate bonds and notes	199,440,402	53,965,123	74,709,011	693,000	—	3,060,894	331,868,430
Foreign government bonds and notes	12,564,496	2,328,515	540,439	—	—	—	15,433,450
Municipal bonds	14,340,158	—	—	—	98,461,000	—	112,801,158
Money market funds	—	—	—	—	—	505,370	505,370
External investments pool-fixed-income securities	1,039,905	—	—	—	—	33,047,190	34,087,095
Investments held under securities lending transactions:							
Interest bearing deposits	52,500,000	—	—	—	—	—	52,500,000
Resell agreements	21,433,815	—	—	—	—	15,000,000	36,433,815
Commercial paper	7,494,775	—	—	—	—	—	7,494,775
U.S. agency discounted notes	2,999,992	—	—	—	—	—	2,999,992
Other	—	—	—	—	—	801,577	801,577
Total debt securities and fixed-income external investment pools	$ 413,128,144	56,625,220	75,249,450	693,000	98,461,000	52,415,031	696,571,845

At June 30, 2015 the GDB Notes had a credit rating of CC. But subsequently on May 3, 2016, Standard & Poor's Global Ratings lowered its issue credit rating on the senior unsecured debt of the GDB to D (default) from CC. GDB did not make a principal payment of approximately $370 million on its series 2011B senior unsecured notes due May 2, 2016 and it exchanged and extended the maturities on about $33 million of these notes. As a result, Standard & Poor's lowered its issue credit rating on the notes. The default on the notes followed an Executive Order of April 8, 2016 signed by the Governor of the Commonwealth that imposed a moratorium on all principal payments on GDB debt within a previously announced emergency period that will likely last until January 31, 2017 (with an option for an extension of not more than two months).

Interest bearing deposits with other banks held under securities lending transactions (see Note 12) are uninsured and uncollateralized. These deposits are exposed to custodial credit risk.

In accordance with its investment policy, the Corporation manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for compensation and medical benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. Investments in equity securities are not subject to the maximum maturity policy since they do not carry a maturity date. The Corporation is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable, investment grade core fixed–income securities.

As of June 30, 2015, investment maturities as a percentage of total debt securities and fixed–income external investment pools are as follows:

Maturity	Maturity %
Within one year	20%
After one to five years	39%
After five years to ten years	23%
After ten years	18%

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Corporation's investment policy permits investing in international stocks to diversify the risks of the investment portfolio. The Corporation limits its exposure to foreign currency risk by limiting the total amount invested to a 10% of the portfolio.

As of June 30, 2015, the Corporation had the following investments denominated in foreign currency:

Description	Currency		Fair Value
Common stock	Australian Dollar	$	896,342
	Canadian Dollar		880,220
	Swiss Franc		3,767,581
	Euro		12,511,750
	British Pound		7,638,418
	Hong Kong Dollar		892,290
	Indonesian Rupiah		420,521
	Japanese Yen		8,852,093
	Mexican Peso		305,592
	Norwegian Krone		975,706
	Swedish Krona		452,073
	Singapore Dollar		1,271,970
	South African Rand		478,522
Preferred stock and other equities	Euro		1,632,058
Total		$	40,975,136

Custodial credit risk related to investments is the risk that, in the event of failure of the counterparty to a transaction, the Corporation may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2015, all securities held in portfolio were registered in the name of the Corporation and were held in the possession of the Corporation's custodian banks, JP Morgan Chase Bank, N.A. and Santander Bank, except for securities lent (see Note 12).

Interest and dividend income for the year ended June 30, 2015, consists of the following:

Description		
Interest income on interest bearing deposits with GDB	$	795,763
Interest income on GDB Notes		8,800,000
Interest income on investments		26,423,864
Dividend income on investments		11,647,451
Dividend income on investment in PRGITF		225
Interest income on investments in cash and non-cash collateral received on securities lending transactions		202,843
Other interest income		203,025
		48,073,171
Less investment managers' fees		(5,290,898)
Total interest and dividend income-net	$	42,782,273

Net increase in the fair value of investments for the year ended June 30, 2015, consists of the following:

Description		Investments	Derivative Instruments	Total
Gross realized gains	$	64,231,758	133,215	64,364,973
Gross realized losses		(44,722,413)	(177,557)	(44,899,970)
Net decrease in fair value		(31,103,721)	(1,737,633)	(32,841,354)
Total	$	(11,594,376)	(1,781,975)	(13,376,351)

(5) Accounts Receivable-Net

Accounts receivable as of June 30, 2015, consist of:

Description		
Insurance premiums receivable, including estimated additional premiums-net of allowance for uncollectible insurance premiums of $330,827,435	$	48,553,440
Interest and dividends receivable		4,870,310
Securities sold but not yet delivered		17,502,966
Employees' accounts receivable, collateralized with motor vehicles-net of allowance for uncollectible accounts of $996,626		4,015,084
Other accounts receivable-net of allowance for uncollectible accounts of $154,834,277		6,657,635
Total	$	81,599,435

Insurance premiums receivable include an estimate for additional premiums of $61,859,623 as of June 30, 2015. The Corporation follows a policy of not charging–off uncollectible insurance premiums against the related allowance for uncollectible accounts, except as discussed below. Other accounts receivable mainly include the portion of insurance premiums of uninsured employers considered to be collectible.

On October 16, 2014, Act No. 174-2014 was enacted to amend Act No. 15-2014, known as "Ley Ponte al Día con tu Responsabilidad Patronal: Plan de Incentivo para el Pago de Contribuciones, Cuotas, Cotizaciones, Declaraciones de Nómina y/o Primas Adeudadas", which offered an incentive plan to employers with an insurance receivable balance with the Corporation and any related debt as of June 30, 2013, for a term of 100 calendar days. Act No. 174-2014 provides a 20% discount to the total amount owed to the Corporation, as part of the incentives offered by Act No. 15-2014, subject to certain limitations. Employers had the choice of paying the full amount owed within the established dates, or benefit from payment plans ranging from one to four years. The incentive plan under the aforementioned Acts expired in May 2015.

(6) Note Receivable from Commonwealth

On June 4, 2015 Act No. 80-2015 was enacted to authorize the Corporation, among other governmental agencies, to issue a loan and/or a contribution to the General Fund of the Commonwealth of Puerto Rico in the aggregate amount of $125 million, ensuring that the necessary amounts to amortize the related debt, be assigned in the operational budgets of the Commonwealth. Pursuant to the Act, on June 5, 2015, the Corporation granted a loan in the amount of $100 million to the Department of Treasury of the Commonwealth of Puerto Rico, at a 1% interest rate, to be payable along with the principal amount on an annual basis from July 31, 2017 through July 31, 2032. The payments for this loan will be consigned annually in the General Budgets of the Commonwealth until July 31, 2032. Please refer to Note 23.

(7) Inventories

Inventories as of June 30, 2015, consist of:

Description		
Medicines and medical supplies	$	3,844,783
Office materials and supplies		545,379
Total	$	4,390,162

(8) Capital Assets-Net

The activity of capital assets for the year ended June 30, 2015 is as follows:

Description	Balance June 30, 2014	Increase	Decrease	Balance June 30, 2015
Capital assets not subject to depreciation and amortization:				
Land	$ 11,382,166	—	—	11,382,166
Land-under capital lease	7,150,000	—	—	7,150,000
Construction in progress	2,782,700	9,326,047	—	12,108,747
	21,314,866	9,326,047	—	30,640,913
Capital assets subject to depreciation and amortization:				
Buildings and improvements	112,324,107	776,940	(31,692)	113,069,355
Medical and office equipment	49,003,294	1,806,917	(187,079)	50,623,132
Software and related assets	13,429,750	3,824,117	(605,886)	16,647,981
Motor vehicles	942,921	—	—	942,921
Assets under capital leases:				
Building and improvements	27,850,000	—	—	27,850,000
	203,550,072	6,407,974	(824,657)	209,133,389
Less accumulated depreciation and amortization:				
Buildings and improvements	(53,454,522)	(3,357,343)	31,692	(56,780,173)
Medical and office equipment	(43,653,069)	(2,220,201)	187,005	(45,686,265)
Software and related assets	(12,255,403)	(705,054)	—	(12,960,457)
Motor vehicles	(900,573)	(31,761)	—	(932,334)
Assets under capital leases:				
Building and improvements	(12,996,666)	(928,333)	—	(13,924,999)
	(123,260,233)	(7,242,692)	218,697	(130,284,228)
Capital assets being depreciated and amortized-net	80,289,839	(834,718)	(605,960)	78,849,161
Capital assets-net	$ 101,604,705	8,491,329	(605,960)	109,490,074

As of June 30, 2015, the net carrying value of assets under capital leases amounted to $21,075,001. Amortization of assets under capital leases amounted to $928,333 for the year ended June 30, 2015.

No impairment on long lived assets was recorded for the year ended June 30, 2015.

(9) Liability for Incurred but Unpaid Benefits and Benefit Adjustment Expenses

The liability for incurred but unpaid benefits and benefit adjustment expenses is based on historical claims experience data, assumptions, and projections as to future events, including claims frequency, severity, persistency and inflationary trends determined by an independent actuarial study. This liability has been discounted at 3.85% in 2015. The actuarial study for 2015 considered the experience of the Corporation from fiscal years 2001–2002 to 2014–2015, and included estimates for cases reported that have not been adjudged and cases incurred but not reported. The assumptions used in estimating and establishing the liability are reviewed annually based on current circumstances and trends. Any resulting adjustments are considered to be a change in an accounting estimate and accounted for as an increase (decrease) to expenses of the Corporation during the current period.

The Corporation has established a liability for both, reported and unreported insured events, which includes estimates of future payment of benefits and related benefit adjustment expenses.

The liability for incurred but unpaid benefits and benefit adjustment expenses as of June 30, 2015 consists of:

Description		
Compensation benefits:		
Cases adjudged:		
Long-term partial disability	$	17,622,854
Long-term total disability		249,220,601
Death		33,282,803
		300,126,258
Cases reported not adjudged and cases incurred but not reported:		
Short-term disability (per diem)		61,818,700
Long-term partial disability		129,058,566
Long-term total disability		81,265,026
Death		(4,158,887)
		267,983,405
Total compensation benefits		568,109,663
Medical benefits		124,824,656
Loss adjustment expense, including legal fees		67,214,629
Total	$	760,148,948

The following provides a reconciliation of the beginning and ending balance for the liability for incurred but unpaid benefits and benefits adjustment expenses for the year ended June 30, 2015:

Description	
Liability for incurred but unpaid benefits and benefit adjustment expenses at beginning of year	$ 811,995,599
Incurred benefits related to:	
Insured events of the current year	359,034,886
Insured events of the prior years	(36,083,022)
Total incurred benefits	322,951,864
Benefit payments related to:	
Insured events of the current year	(227,829,252)
Insured events of the prior years	(146,969,263)
Total benefit payments	(374,798,515)
Liability for incurred but unpaid benefits and benefit adjustment expenses at end of year	$ 760,148,948

(10) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2015, consist of:

Description		
Accounts payable:		
Securities purchased not yet received	$	19,442,435
Due to employers		16,213,729
Due to other governmental agencies (Acts No. 66 and 32)		22,900,950
Suppliers, professional services and others		46,316,973
Total accounts payable		104,874,087
Accrued liabilities:		
Compensated absences-vacations and sick leave		37,948,032
Accruals for Christmas bonus, salary increases, compensatory time and other fringe benefits		10,398,311
Pension and postemployment benefits other than pensions (see Notes 18 and 19)		9,175,548
Accruals for claims and contingencies (see Note 22)		11,448,113
Accrued interest payable		850,338
Total accrued liabilities		69,820,342
Total	$	174,694,429

On June 17, 2014, the Legislature of the Commonwealth enacted Act No. 66-2014, the "Fiscal Sustainability Act". This Act requires that all instrumentalities, entities, agencies and public corporations of the Commonwealth of Puerto Rico reduce their operating expenses, specifically those related to payroll, professional services, contracted services and leases, among others. During the effective term of this Act, the excess accumulation of vacation and sick leave will not be paid to employees. The employees should exhaust the excess accumulation by the end of each fiscal year. The Act also establishes that the Christmas bonus paid to eligible employees shall not exceed $600. The Corporation is required to transfer the savings resulting from the enactment of this Act to the "Fund of Services and Therapies for Special Education Students", in equal monthly installments during fiscal year 2015, and an equal amount shall be transferred during fiscal years 2016 and 2017. At June 30, 2015 the Corporation accrued approximately $17 million related to this matter. The amount was recorded within accounts payable in the accompanying financial statements of net position.

After the enactment of the Act No. 66-2014, the Corporation started discussions and entered into certain negotiations with the unionized groups within the Corporation, specifically in relation to the payment of certain benefits, which were affected by the enactment of the Act. After negotiations were finalized, the Corporation still reported decreases in the compensated absences accruals and Christmas bonus accrual, as a result of the enactment of the Act. This Act was effective on June 17, 2014 and the expense reduction and contribution to the special fund will remain in effect until July 1, 2017 or before that date if certain financial and economic metrics are achieved by the Commonwealth of Puerto Rico.

(11) Accrual for Reimbursement of Premiums

As of June 30, 2015, the accrual for reimbursement of premiums as determined by the independent actuary was classified as current and non-current in the accompanying statement of net position as follows:

Description	2015
Due within one year	$ 44,321,948
Due in more than one year	36,155,285
Total	$ 80,477,233

The provision for reimbursement of insurance premiums for the year ended June 30, 2015 amounted approximately to $20,735,000, including a current year credit of approximately $21.4 million, to reflect changes in the accrual for reimbursement of premiums determined by an independent actuary. A discount rate of 4.12% was used to determine present value at June 30, 2015.

(12) Securities Lending Obligations

The Commonwealth statutes and the Corporation's SIPGO permit the Corporation to use its investments to enter into securities lending transactions, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, securities and/or irrevocable bank letters of credit.

The Corporation's securities custodian, JP Morgan Chase Bank, N.A., as agent of the Corporation, manages the securities lending program and receives cash collateral, securities or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the Corporation unless the borrower defaults. The collateral requirement is equal to 102 percent for securities issued in the United States and 105 percent for securities issued outside of the United States, of the fair value of the security lent. Additional collateral has to be provided by the next business day if the collateral fair value falls below the fair value of the securities lent. All security loans can be terminated on demand by either the Corporation or the borrower. In lending securities, the term to maturity of the securities loans is matched with the term to maturity of the investment made with the cash collateral. Such matching existed at year–end.

At year–end, the Corporation has no credit risk exposure to borrowers because the amounts the Corporation owes the borrowers exceed the amounts the borrowers owe the Corporation. Contracts with the lending agents require them to indemnify the Corporation if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Corporation for income distributions by the securities' issuers while the securities are on loan.

Securities lent as of June 30, 2015 had a fair value of $104,363,480 and were secured with collateral received with a fair value of $106,755,569.

Securities lent for which cash was received as collateral as of June 30, 2015, consist of:

Description		
U.S. Treasury notes and bonds	$	751,289
Corporate bonds and notes		11,645,577
Foreign government and corporate bonds		622,716
Equity securities		84,197,458
Total	$	97,217,040

Cash collateral received as of June 30, 2015 amounted to $99,428,582 (see Note 4), and was invested as follows:

Description		
Commercial paper	$	7,494,775
Resell agreements		36,433,815
U.S. Agency discounted notes		2,999,992
Interest bearing deposits:		
Certificates of deposit with other banks		52,500,000
Total	$	99,428,582

In addition, the Corporation had the following lending obligations as of June 30, 2015 for which securities were received as collateral:

		Fair Value	
Description		Securities Lent	Collateral Received
U.S. Treasury notes and bonds	$	581,006	592,728
Corporate bonds and notes		1,458,165	1,488,326
Equity securities		5,107,269	5,245,933
Total	$	7,146,440	7,326,987

Net (rebates) cost of securities lending transactions for the years ended June 30, 2015 consist of the following:

Description		
Borrower rebates	$	(676,864)
Agent fees		351,878
Total	$	(324,986)

(13) Note Payable

Note payable activity for the year ended June 30, 2015, is as follows:

	June 30, 2014	Advances	Payments	June 30, 2015
$	225,866,668	—	(16,133,332)	209,733,336

On May 11, 2011, the Corporation entered into a loan agreement (the Loan) with a private financial institution for the amount of $242,000,000. The Loan matures on May 1, 2028 and carries a variable interest rate of 30 day LIBOR (0.19% at June 30, 2015) plus a 2.5% spread. This loan requires the Corporation to comply with certain restrictive covenants, which, in the event of non–compliance, provide the financial institution the right to declare the outstanding debt as due and payable in cancellation of the loan agreement. One of the covenants requires the Corporation to pledge 130% of the outstanding principal on the loan in securities in its investment portfolio. Proceeds of the loan were used to repay a note payable and interest payable to the Government Development Bank for Puerto Rico ($220,000,000 principal and $3,273,000 in interest), purchase of two buildings with land ($8,490,000 for building purchased before June 30, 2011 and $10,100,000 for building purchased during fiscal year 2012) and other purposes ($137,000).

On February 25, 2015, the Corporation and the financial institution entered into a second amendment to the Loan in which the pledged securities were transferred from the current custodian to two new securities custody accounts to be maintained by another financial institution, as custodian.

On June 19, 2015, the financial institution notified the Corporation of an event of default, pursuant to Section 6.04 of the Credit Agreement, triggered by the loan of $100 million granted by the Corporation on June 4, 2015 to the Commonwealth pursuant to Act No. 80-2015 (see Note 6). The Note Payable has been presented as a current liability in the

accompanying financial statements as a result of the event of default that existed at June 30, 2015. Nevertheless, the Corporation responded disagreeing with the financial institution's contention and pursued legal action. Furthermore, subsequent to year end, the financial institution retired the event of default and the Corporation desisted from the legal action.

On August 27, 2015, the Board of Directors of the Corporation approved the prepayment in full of the existing Note Payable with the private financial institution in conformance with the agreement reached with said financial institution. The Board approved the partial sale of the Corporation's investment portfolio to obtain the funds to pay off the debt. On September 2015, the Corporation paid off approximately $208,000,000 related to the Note Payable, which included principal balance, interest and prepayment penalty. Upon the prepayment of the loan, all pledged assets were released by the financial institution.

(14) Other Notes Payable

During 1999, the Corporation acquired the facilities where four regional offices are located. In consideration for the facilities acquired, the Corporation entered into non–interest bearing financing agreements with the sellers, payable on an installment basis and collateralized with first mortgages over the underlying facilities. The original terms of these notes payable are as follows:

Note	Description		Original Balance
1	Non-interest bearing note, due in September 2018, payable in 40 semi-annual installments, effective interest rate of 6.54%	$	35,001,060
2	Non-interest bearing note, due in September 2018, payable in 40 semi-annual installments, effective interest rate of 6.54%		21,419,834
3	Non-interest bearing note, due in October 2018, payable in 40 semi-annual installments, effective interest rate of 6.31%		16,619,468
4	Non-interest bearing note, due in March 2019, payable in 40 semi-annual installments, effective interest rate of 6.84%		53,285,454
	Total payments		126,325,816
	Less imputed interest at the inception of the notes		(54,957,702)
	Total original balance	$	71,368,114

The activity of these notes payable for the year ended June 30, 2015, is as follows:

Description	Balance June 30, 2014	Payments	Balance June 30, 2015
Note payable (gross):			
Note 1	$ 8,744,923	(2,090,274)	6,654,649
Note 2	4,778,020	(1,127,732)	3,650,288
Note 3	3,012,173	(398,767)	2,613,406
Note 4	14,858,052	(3,135,879)	11,722,173
Total	31,393,168	(6,752,652)	24,640,516
Portion representing interest:			
Note 1	(929,141)	416,058	(513,083)
Note 2	(510,440)	227,851	(282,589)
Note 3	(272,921)	73,919	(199,002)
Note 4	(1,860,234)	741,770	(1,118,464)
Total	(3,572,736)	1,459,598	(2,113,138)
Principal of note payable:			
Note 1	7,815,782	(1,674,216)	6,141,566
Note 2	4,267,580	(899,881)	3,367,699
Note 3	2,739,252	(324,848)	2,414,404
Note 4	12,997,818	(2,394,109)	10,603,709
Total	$ 27,820,432	(5,293,054)	22,527,378

The schedule of payments of these notes payable as of June 30, 2015, is as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	$ 6,235,471	1,152,926	7,388,397
2017	6,912,777	719,706	7,632,483
2018	7,640,404	240,506	7,880,910
2019	1,738,726	—	1,738,726
	22,527,378	2,113,138	24,640,516
Less current portion	(6,235,471)		
Non current portion	$ 16,291,907		

(15) Obligation Under Capital Lease

In fiscal year 2000, the Corporation acquired under a capital lease agreement the facility where a regional office is located. The agreement requires the Corporation to make total payments of approximately $111.7 million over 30 years. The effective interest rate was determined at 10.23%.

The activity of the obligation under capital lease for the year ended June 30, 2015, is as follows:

Description		Balance June 30, 2014	Payments	Balance June 30, 2015
Future payment on assets under capital lease	$	59,598,000	(3,724,875)	55,873,125
Portion representing interest		(30,317,523)	2,959,459	(27,358,064)
Present value of minimum lease payments	$	29,280,477	(765,416)	28,515,061

The schedule of future minimum lease payments under this lease agreement, together with the present value of such minimum lease payments as of June 30, 2015, is as follows:

Fiscal Year Ending June 30,		Present Value Capital Lease	Interest	Total
2016	$	847,475	2,877,400	3,724,875
2017		938,332	2,786,543	3,724,875
2018		1,038,930	2,685,945	3,724,875
2019		1,150,312	2,574,563	3,724,875
2020		1,273,636	2,451,239	3,724,875
2021-2025		8,733,696	9,890,679	18,624,375
2026-2030		14,532,680	4,091,695	18,624,375
		28,515,061	27,358,064	55,873,125
Less current portion		(847,475)		
Non current portion	$	27,667,586		

(16) Transfers to Other Governmental Agencies

Transfers to other governmental agencies during the year ended June 30, 2015, are as follows:

Description		
Industrial Commission of Puerto Rico	$	24,286,915
Department of Labor and Human Resources:		
Occupational Safety and Health Office		8,024,000
Labor Standards Offices		10,989,000
Other		150,000
Department of the Family-Vocational Rehabilitation Program		600,000
Fund for Legal Responsibility (Act No. 78-2014)		15,000,000
Fund of Services and Therapies for Special Education Students 2014-2015 (Act No. 73-2014)		30,719,127
Fund of Services and Therapies for Special Education Students (Act No. 66-2014)		16,986,490
Total	$	106,755,532

The expenses incurred by the Industrial Commission of Puerto Rico are covered by the Corporation under the provisions of Law No. 45 of April 18, 1935. These expenses shall not exceed 4% of the total of insurance premiums collected during the previous fiscal year.

The transfers to the Department of Labor and Human Resources, Occupational Safety and Health and Labor Standards Offices, are in accordance with the applicable legislation as of July 20, 1990, which authorizes the Corporation to transfer certain amounts as prescribed by law to cover operational expenses of the above mentioned offices.

The transfers to the Department of the Family are made under the provisions of Law No. 243, of July 23, 1974, which requires the Corporation to transfer to the Vocational Rehabilitation Program an amount not to exceed $600,000 each year for the vocational rehabilitation of injured workers. As of June 30, 2015, the amount due under this Program amounted to $600,000.

Act No. 78 was enacted by the Commonwealth with effective date of July 1, 2014, to create the "Fund for Legal Responsibility" under the custody of the Office of Management and Budget of the Commonwealth. The fund was created, among other resources, by an automatic one-time transfer of $15,000,000 from the Corporation, which was made on July 24, 2014.

Act No. 73 was enacted by the Commonwealth with effective date of July 1, 2014, to create the "Fund for Services and Therapies to Special Education Students" to, among other, provide special education kids with resources to support their academic development. The

fund was created, in part, by an automatic one-time transfer of 5% of the income earned by the Corporation from insurance premiums collected during the year ended June 30, 2013. The intergovernmental transfer of $30,719,127 was made on July 24, 2014.

As a result of the enactment of Act No. 66-2014, the Corporation recorded an accrual of intergovernmental transfer of approximately $17 million representing the certified savings from the enactment of the Act as of June 30, 2015. The Corporation is required to transfer the aforementioned savings of approximately $17 million to the "Fund of Services and Therapies for Special Education Students", in equal monthly installments during fiscal year 2015, and an equal amount shall be transferred during fiscal years 2016 and 2017.

Act No. 32-2013, required the Corporation to accrue at June 30, 2015 approximately $6 million related to an additional uniform contribution to the Employee Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) to improve its liquidity and solvency. The Act provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries. Due to the implementation of GASB Statement No. 68 contributions made to the Retirement System during 2015, pursuant to Act No. 32-20113 (Additional Uniform Contribution) of $6,452,138 were recorded as deferred outflows of resources in the accompanying statement of net position, as contributions made subsequent to the measurement date. Prior to the implementation of GASB Statement No. 68, these were presented as transfers to other governmental agencies.

(17) Investment Derivative Instruments

The Corporation entered into derivative instruments not designated as hedge transactions to the extent and in a manner consistent with the Corporation's SIPGO, to establish an asset class exposure or in order to affect a change in the overall allocation strategy of the investment portfolio or to affect currency hedging for non–US dollar positions. These investment derivative instruments consist of spot currency contracts, forward currency contracts and future contracts. The financial exposure is managed through an independent money manager in accordance with the Corporation's investment policies. The Corporation is exposed to foreign currency risk and market interest risk as a result of the changes in the fair value of the derivative.

For the year ended June 30, 2015, the Corporation recorded within net increase in fair value of investments in the statement of revenues, expenses and changes in net position, a net loss

on investment derivative instrument transactions amounting to approximately $1,782,000. At June 30, 2015, there were no significant outstanding investments in derivative instruments.

(18) Retirement Plan

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing, multiple-employer, defined benefit pension plan sponsored by and reported as a component unit of the Commonwealth.

The Retirement System consists of different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. The pension plan is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Benefit provisions vary depending on member's date of hire.

Certain provisions are different for the three groups of members who entered the Retirement System prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990.
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999.
- Members of Act No. 305 (or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013.

Defined Benefit Program

Pursuant to Act No. 447, all regular employees of the Corporation hired before January 1, 2000 and less than 55 years of age at the date of employment became members of the Retirement System, under the Defined Benefit Program, as a condition of their employment. No benefits are payable if the participant receives a refund of their accumulated contributions.

The Defined Benefit Program provides retirement, death, and disability benefits pursuant to legislation enacted by the Legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least 10 years of service to receive non-occupational disability benefits.

Members who have attained 55 years of age and have completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, are entitled to an annual benefit payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. The annuity for which the participant is eligible, is limited to a minimum of $500 per month and a maximum of 75% of the average compensation, as defined.

Participants who have completed 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they will receive 75% of the average compensation, as defined.

The contribution requirement to the Retirement System is determined by law and not actuarially determined. Commonwealth Legislation required employees to contribute 5.775% of the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. The Corporation was required by the same statute to contribute 9.275% of each participant's gross salary. Pursuant to Act No. 116 of July 16, 2011, the Corporation's contribution was increased to 10.275% for 2012, an additional 1% annually (13.275% for 2015) for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Act No. 1 of February 16, 1990 made certain amendments as applicable to new participating employees joining the Retirement System effective April 1, 1990. These changes consisted principally of an increase in the retirement date from 55 to 65, a decrease in the benefit percentages of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40% and the elimination of the Merit Annuity for participating employees who have completed 30 years of creditable service.

On April 4, 2013, the Legislature enacted Act No. 3, which will be described further below, amended the provisions of the different benefit structures under the Retirement System, including the Defined Benefit Program.

Defined Contribution Program – System 2000 Program

The Legislature enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to establish, among other things, a defined contribution savings plan program (the System 2000 Program) to be administered by the Retirement System, similar to a cash balance plan. All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the Defined Benefit Program, received a refund of their contributions,

and were rehired on or after January 1, 2000, become members of the System 2000 Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the Defined Benefit Program had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the Defined Benefit Program plus interest thereon to the System 2000 Program.

Act No. 305 required employees to contribute 8.275% of their monthly gross salary to the System 2000 Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to individual accounts established under the System 2000 Program. Participants have three options to invest their contributions to the System 2000 Program. Investment income is credited to the participant's account semiannually.

The Corporation was required by Act No. 305 to contribute 9.275% of each participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan. Pursuant to Act No. 116 of July 16, 2011, the Corporation's contribution was increased to 10.275% for 2012, an additional 1% annually (13.275% for 2015) for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Under System 2000 Program, contributions received from participants are pooled and invested by the Retirement System, together with the assets corresponding to the Defined Benefit Program. Future benefit payments under the Defined Benefit Program and the System 2000 Program will be paid from the same pool of assets. As a different benefit structure, the System 2000 Program is not a separate plan and the Commonwealth does not guarantee benefits at retirement age. Corresponding employer's contributions will be used by the Retirement System to reduce the unfunded status of the Defined Benefit Program.

The System 2000 Program reduced the retirement age from 65 years to 60 years for those employees who joined this plan on or after January 1, 2000.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in each participant's account will be paid in a lump sum to the participant's beneficiaries. Participants have the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

As discussed further below, Act No. 3 of April 4, 2013 substantially amended the provisions of the previous Acts governing the Retirement System benefit structures and programs, including the System 2000 Program.

Defined Contribution Hybrid Program

On April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the Retirement System and amended Act No. 447, Act No. 1 and Act No. 305, to establish, among other things, a defined contribution program similar to the System 2000 Program (the Defined Contribution Hybrid Program) to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the System 2000 Program participants.

Participants in the Defined Benefit Program who as of June 30, 2013, were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants who as of June 30, 2013, have not reached the age of 58 and completed 10 years of service or have not reached the age of 55 and completed 25 years of service can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

Participants in the System 2000 Program who as of June 30, 2013, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants in the System 2000 Program who as of June 30, 2013, have not reach the age of 60 can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the Retirement System, including, but not limited to, the following:

- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
- Increases the minimum pension for current retirees from $400 to $500 per month.
- The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
- The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.
- Eliminates the "merit annuity" available to participants who joined the Retirement System prior to April 1, 1990.
- The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
- The employee contribution rate was increased from 8.275% to 10%.
- For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated.
- Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits were modified.

Employee contributions are credited to individual accounts established under the Defined Contribution Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty five percent (0.25%) is required for the purchase of disability insurance.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death, the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service, a death benefit will be paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than $10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability the participants have the option of receiving a lump sum or purchasing an annuity contract.

To improve the liquidity and solvency of the Retirement System, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the Retirement System's actuaries.

Total employee contributions for the Defined Benefit Program amounted to approximately $18,164,000 during the year ended June 30, 2015. There were no employee contributions for the Defined Contribution Program during 2015. The Corporation's total contributions during the years ended June 30, 2015, 2014 and 2013, amounted to approximately $24,176,000, $23,260,000, and $22,717,000, respectively. These amounts represented 100% of the required contribution for the corresponding year. Individual information for each option is not available since the allocation is performed by the Retirement System itself.

The Corporation's contributions (either paid or accrued) to the Retirement System pursuant to Act No. 32 of 2013 (Additional Uniform Contribution) for 2015 amounted to approximately $6,452,000.

Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Unaudited)

At June 30, 2015, the Corporation reported a pension liability of $1,417,962,700 for its proportionate share of the collective Net Pension Liability (NPL) of the Retirement System, resulting from the implementation of GASB Statement No. 68. GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and requires that employers report an NPL and related pension expense as determined by the Plan under the requirements contained in GASB Statement No. 67. The NPL was measured as of June 30, 2014 and was determined by rolling forward the Total Pension Liability (TPL) as of the June 30, 2013 actuarial valuation date. The NPL is equal to the difference between the TPL and the Plan's Fiduciary Net Position. The Plan's Fiduciary Net Position is equal to the market value of the Plan assets.

On February 24, 2016, the Department of the Treasury of the Commonwealth issued Circular Letter 1300-23-16 which provided a preliminary and unaudited report of GASB No. 68 Collective and Allocated Pension Amounts for participating employers of the Retirement System in order for them to record the pension amounts and other related accounts impacted by the adoption of GASB No. 68 as of and for the year ended June 30, 2015. The final audited report has not been issued. The accompanying basic financial statements include adjustments based on preliminary and unaudited amounts reported in Circular 1300-23-16. In addition, certain disclosures required by GASB No. 68 have been included to the extent the information was available.

The Corporation's 4.71% proportion of the NPL was based on the employer's proportionate share (actual contributions made by the Corporation to the Retirement System in relation to the total contributions made by all participating employers) of statutorily required contributions to the Retirement System as of the measurement date.

For the year ended June 30, 2015, the Corporation recognized pension expense of $81,318,089.

At June 30, 2015, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Pension Deferred Outflows/Inflows (Unaudited)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions to the pension plan subsequent to the measurement date	$ 30,628,657	—
Differences between expected and actual experience with regard to economic or demographic assumptions	—	11,347,132
Changes of assumptions or inputs	48,398,846	—
	$ 79,027,503	11,347,132

The $30,628,657 reported as deferred outflows of resources related to pension plan resulting from the Corporation's contributions to the Retirement System subsequent to the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions that will be recognized in pension expense subsequent to June

30, 2015, are not available as of the date of the issuance of the accompanying basic financial statements.

Actuarial Methods and Assumptions

TPL represents the portion of the actuarial present value of projected benefit payments attributable to past periods of employee service. The census data collection date has changed from end-of-year to beginning-of-year. For this switchover year, the June 30, 2013 census data used in the prior valuation is also used as the July 1, 2013 census data for the current valuation. The liability results as of June 30, 2014 (measurement date) are based on projecting the Retirement System obligations determined as of the census data collection date of July 1, 2013 for one year, using roll-forward methods and assuming no liability gains or losses.

The significant actuarial assumptions used to measure the TPL as of June 30, 2014 (measurement date) for the initial adoption of GASB 68 were the following:

Actuarial Assumptions

Actuarial cost method	Entry age normal
Inflation	2.50%
Municipal bond index	4.29% as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2017 as a result of Act No. 66 and the current general economy.
Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females. The rates are projected on a generational basis starting in 1994 using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. No provision was made for future mortality improvement for disabled retirees.

Most other demographic assumptions used in the July 1, 2013 valuation were based on the results of an actuarial experience study using data as of June 30, 2003, June 20, 2005 and June 30, 2007.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension benefits investments was determined in accordance with the asset allocation of the portfolio that was adopted by the Board of Trustees (the Board) of the Retirement System during December 2013 and the actuary's capital market assumptions as of June 30, 2014. The long-term expected rate of return on pension benefits investments of 6.75% as of June 30, 2014 was slightly higher than the debt service of the senior pension funding bonds payable which ranged from 5.85% to 6.55%.

The Retirement System's policy in regards to allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on the Retirement System's financial condition for the benefits provided through the pension programs. The following was the Board's adopted asset allocation policy as of June 30, 2014:

Asset class	Target allocation	Long-term expected rate of return
Domestic equity	25%	6.8%
International equity	10%	7.6%
Fixed income	64%	3.9%
Cash	1%	2.9%
Total	100%	

The long-term expected rate of return on pension benefits investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Discount Rate

The asset basis for the depletion projection is the Retirement System's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the

Retirement System's fiduciary net position was expected to be exhausted in the fiscal year 2015.

The Retirement System's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate used to measure the TPL was 4.29% as of June 30, 2014.

Sensitivity of the Corporation's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate (Unaudited)

The following table presents the Corporation's proportionate share of the Net Pension Liability using the discount rate of 4.29%, as well as what the Corporation's proportionate share of the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.29%) or 1-percentage-point higher (5.29%) than the current rate:

	1% Decrease (3.29%)	Current Discount Rate (4.29%)	1% Increase (5.29%)
Corporation's proportionate share of the net pension liability	$ 1,608,911,791	1,417,962,700	1,259,837,626

Pension Plan Fiduciary Net Position

The Retirement System issues a publicly available financial report that details its fiduciary net position and includes financial statements and required supplementary information, as a component of the Commonwealth. A copy of its financial report can be obtained by writing to the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, P.O. Box 42003, San Juan PR 00940-2203.

Other Retirement Benefits not Covered by GASB Statement No. 68

In addition to the Defined Benefit Program and to the Defined Contribution Program, the Corporation provides the following retirement benefits:

- Life insurance benefit — Life insurance coverage is provided to retirees for a period of one year following retirement. It is covered through the Corporation's health plan ($20,000 of life coverage for retiree only).

- Christmas bonus benefit — Same eligibility as for the health benefits but retirement must occur after March 31. The benefit is a one–time payment in the year of retirement equal to 9.5% of salary up to a maximum of $3,325, except for unionized lawyers who receive 8.5% of salary up to a maximum of $2,720. Employees retired pursuant to various special incentive programs may receive up to five years of such Christmas bonuses.
- Retirement payment benefit — Eligibility required at least 15 years of service at the Corporation and at least 30 years of credited service at the Retirement System and the retiree must provide a letter of resignation at least 90 days prior to retirement. Benefit is a lump sum of $8,100.
- Retirement bonus benefit — Same eligibility as for the health benefits. Trust employees receive 21% of final salary as a lump sum and all other employees receive 30% of final salary as a lump sum.
- Disability benefit — To be eligible for disability benefits, the employee must be a permanent full–time employee. A totally disabled employee who meets the disability requirements of the Social Security Administration, the Worker Compensation or the Retirement System receives a lump sum of $5,000. A totally disabled employee who resigns and is not eligible for the disability requirements mentioned above, receives a lump sum of 55% of the last year salary and up to $5,000 for rehabilitation costs ($4,800 for trust employees).

As a result of enactment of Act No. 66-2014, certain benefits were reduced or eliminated for the period of effectiveness of the Act, and were negotiated with the different unionized groups within the Corporation with the following maximum amounts:

- Christmas bonus benefit — $600 for management and non-union employees and a maximum ranging from $600 to $3,150 for the different unionized groups within the Corporation. The unions will re-negotiate this benefit annually until June 30, 2017.
- Retirement payment and retirement bonus benefits — suspended for certain unionized groups. The "Hermandad" and internal auditors unions will negotiate this benefit annually until June 30, 2017.

Funding Policy and Annual Pension Cost

The required contribution is based on projected pay–as–you–go financing requirements. Benefits are actuarially calculated by an independent actuary.

The Annual Pension Cost is calculated based on the annual required contribution of the employer (the ARC). The ARC is determined in accordance with plan provisions, demographic participant data, actuarial assumptions, actuarial cost method, and other actuarial methods prescribed by GASB Statement No. 27. While pre–funding is not required, the ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The ARC will generally increase with benefit cost increases and participant growth; in addition, gains/losses resulting from demographic and/or assumption changes will also impact the ARC.

The following table shows the components of the Corporation's annual pension cost for the fiscal year ended June 30, 2015, the amount actually contributed to the Pension Program, the change in the Corporation's net obligation and the funded status of the Pension Program:

Net Pension Obligation Movement:		
Annual Required Contribution	$	2,842,326
Interest on the net pension obligation		206,784
Adjustments to the ARC		(509,441)
Annual pension cost		2,539,669
Employer contribution		(422,634)
Increase (decrease) in the net pension obligation		2,117,035
Net pension obligation-beginning of year		6,117,857
Net pension obligation-end of year	$	8,234,892
Percentage of annual pension cost contributed		17%

Funded Status:		
Actuarial valuation date		July 1, 2014
Actuarial accrued liability (AAL)	$	21,064,434
Unfunded AAL	$	21,064,434
Funded ratio		0%
Annual covered payroll	$	182,278,452

Pension Actuarial Valuation

The following table shows the most significant actuarial methods and assumptions used to estimate the net pension obligation. As permitted by GASB Statement No. 27, the actuarial valuation is performed every two years. The Corporation performed a full valuation for its fiscal year ending June 30, 2015 (valuation date July 1, 2014).

Actuarial Methods and Assumptions 2015:

Valuation year	July 1, 2014
Actuarial cost method	Projected Unit Credit
Amortization method	Level percentage of projected payroll on an open basis over 15 years.
Asset valuation method	N/A
Discount rate	3.38%
Projected salary increase	4.00%
Mortality rate	RP-2014 Generational Healthy Mortality Table for blended healthy active employee/retiree
	RP-2000 Combined Disability Mortality Table for disabled participants

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about the actuarial value of program assets relative to the actuarial accrued liability for benefits.

Calculations are based on the types of benefits provided at the time of each valuation and on the pattern of sharing of costs between the employer and members to that point. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long–term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short–term volatility in actuarial accrued liabilities and actuarial value of assets.

(19) Postemployment Benefits other than Pensions

Program Description and Membership

The Corporation's Postemployment Benefits Other Than Pensions Program (the OPEB Program) provides postemployment benefits other than pensions (OPEB) to all employees who meet certain age and years of service requirements. These benefits were agreed by the Corporation and employees in the collective bargain agreements and similar agreements. The benefits are funded from the Corporation's assets.

The Corporation provides the following OPEB:

- Health and other health related benefits: medical, prescription drugs, dental, and vision benefits are provided together in a fully–insured health plan. Upon retirement, an eligible employee receives two years of non–contributory healthcare benefits from the Corporation and through its healthcare plan. The Corporation's healthcare plan covers medical, prescription drugs, vision, dental, and life insurance (see Note 18). After the two years, the retiree can continue participation in the Corporation's plan (for lifetime) by contributing the difference between the plan premium and the Corporation's contribution of $35/month ($40/month for members of the "Unión de Empleados de la Corporación del Fondo del Seguro del Estado") per retiree (including dependents, if any). The $35/month and $40/month contributions end when the retiree reaches 65 years of age and, thereafter, the retiree must contribute the full plan premium. Some retirees who retired under special incentive programs have the two-years extended (ranging from 5 to 7 years total). After the two–year period (or the special retirement program period), the retiree can continue the spouse or family coverage for the lifetime of the retiree.

At June 30, 2015, membership in the Corporation's OPEB Program consisted of the following:

Retirees and beneficiaries currently receiving benefits	448
Current participating employees	3,169
	3,617

Funding Policy and Annual OPEB Cost

The required contribution is based on projected pay–as–you–go financing requirements. Benefits are actuarially calculated by an independent actuary.

The Annual OPEB Cost is calculated based on the annual required contribution of the employer (the ARC). The ARC is determined in accordance with plan provisions, demographic participant data, actuarial assumptions, actuarial cost method, and other actuarial methods prescribed by GASB Statement No. 45. While pre–funding is not required, the ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The ARC will generally increase with benefit cost increases and participant growth; in addition, gains/losses resulting from demographic and/or assumption changes will also impact the ARC.

The following table shows the components of the Corporation's annual OPEB cost for the fiscal year ended June 30, 2015, the amount actually contributed to the OPEB Program, the change in the Corporation's net obligation and the funded status of the OPEB Program.

Net OPEB Obligation Movement:		
Annual Required Contribution	$	2,903,346
Interest on the net OPEB obligation		92,052
Adjustments to the ARC		(141,090)
Annual OPEB cost		2,854,308
Employer contribution		(4,637,078)
Decrease in the net OPEB obligation		(1,782,770)
Net OPEB obligation at beginning of year		2,723,426
Net OPEB obligation at end of year	$	940,656
Percentage of annual OPEB cost contributed		162%

Funded Status:		
Actuarial valuation date		July 1, 2014
Actuarial accrued liability (AAL)	$	30,838,515
Unfunded AAL	$	30,838,515
Funded ratio		0%
Annual covered payroll	$	182,278,452

OPEB Actuarial Valuation

The following table shows the most significant actuarial methods and assumptions used to estimate the net OPEB obligation. As permitted by GASB Statement No. 45, the actuarial valuation is performed every two years. The Corporation performed a full valuation at June 30, 2015 (valuation date July 1, 2014).

Actuarial Methods and Assumptions (2015):

Valuation year	July 1, 2014
Actuarial cost method	Projected Unit Credit, level dollar
Amortization method	Level percentage of projected payroll on an open basis over 30 years
Asset valuation method	N/A
Discount rate	3.38%
Projected salary increase	4.00%
Mortality rate	RP-2014 Generational Healthy Mortality Table for blended healthy active employee/retiree RP-2000 Combined Disability Mortality Table for disabled participants
Health care cost trend rate for medical and prescription drugs	8.5% in fiscal year 2015, grading to 5% for fiscal year 2023

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about the actuarial value of program assets relative to the actuarial accrued liability for benefits.

Calculations are based on the types of benefits provided at the time of each valuation and on the pattern of sharing of costs between the employer and members to that point. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long–term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short–term volatility in actuarial accrued liabilities and actuarial value of assets.

(20) Segregation of Fund

The Corporation is required to maintain an adequate accounting system and to segregate the financial resources by funds, as defined by the Act No. 45 of April 18, 1935, as amended. The provisions of the Act establish the segregation of the funds be based on their purposes, as defined.

As of June 30, 2015, the Corporation was required to account for the Death and Total Disability Fund (the DTDF) and for the Reserve for Catastrophic Fund (the RCF). The DTDF recognizes the claims awarded to the workers (injured employees or its beneficiaries). The Corporation maintains a separate account to record the inventory of claims adjudicated, which is part of the liabilities for incurred but unpaid benefits and benefit adjustment expenses, reflected in the accompanying financial statements. As of June 30, 2015, the DTDF (adjudged cases) amounted to approximately $241 million and the investments portfolio serves to fund the obligation incurred.

The RCF is required by the Article 23 of the Act, which serves to provide funds in an event of catastrophic situation. The provisions of Article 23 allow the Corporation to use the funds in the RCF to reduce any deficit incurred by the Corporation. As of June 30, 2015, the RCF amounted to approximately $14.2 million.

(21) Commitments

Operating Lease Agreements

The Corporation rents certain of its administrative offices and clinics under non–cancelable long–term operating lease agreements. Certain leases contain escalation clauses providing for increased rental. Rent charged to operations in fiscal year 2015 amounted to approximately $20.8 million. At June 30, 2015, the minimum annual future rentals under non–cancelable leases, without considering renewal options, are approximately as follows:

Fiscal Year Ending June 30,		Amount
2016	$	20,319,433
2017		18,494,020
2018		10,329,591
2019		9,162,229
2020		5,564,262
2021-2022		9,427,159
	$	73,296,694

See Note 16 for commitments with other governmental agencies.

(22) Contingencies

The Corporation is included as defendant in various lawsuits from approximately 340 cases as of June 30, 2015, most of current and former employees as a result of the Corporation's decision to declare null and void certain administrative personnel transactions which occurred in prior years. Plaintiffs' claims include damages and requests for reinstatements. On November 17, 2011, as part of one of the cases being litigated, the State Court of Appeals ratified a previous ruling in favor of plaintiffs on the subject related to nullification of personnel transactions. Management believes, based on the opinion of legal counsel, that their actions were appropriate and these adverse rulings were appealed to the State Supreme Court.

Also, the Corporation is included as defendant or co–defendant in several other claims and lawsuits pending final resolution. The Corporation had medical malpractice insurance coverage through June 3, 1991, and for the period from December 31, 1996 to April 1, 2007. During the periods from June 4, 1991 to December 30, 1996 and from April 2, 2007 to present, the Corporation had no medical malpractice coverage. Management has recorded an accrual of approximately $11.4 million to cover claims and lawsuits that may be assessed against the Corporation, including malpractice cases not covered by the related policy as of June 30, 2015. The Corporation has certain labor-related, medical malpractice, general liability and other claims for which the probability of loss is not probable, but reasonably possible, therefore no accrual was necessary to be made in the financial statements at June 30, 2015.

In the opinion of management, any loss to be sustained as a result of an unfavorable outcome for the above mentioned cases has been provided for in the reserve estimates accrued and should not materially affect the Corporation's financial statements.

(23) Transactions with Governmental Entities

During the year ended June 30, 2015, insurance premiums earned by the Corporation from the governmental sector are approximately as follows: $96.6 million from the Commonwealth and its agencies and public corporations and $43.2 million from the municipalities for a total amount of $139.8 million from the governmental sector. These amounts represent approximately 22% of the total of premiums earned at June 30, 2015.

Interest bearing deposits with GDB amounted to $45,000,000 as of June 30, 2015. The Corporation also has demand deposit accounts with GDB amounting to $12,204,309 at June 30, 2015. Interest income earned on these deposits amounted to $795,763 for the year ended June 30, 2015. Also, on December 19, 2013, the Corporation invested in GDB Senior Guaranteed Notes in an aggregate amount of $110,000,000, bearing interest of 8% per annum commencing on February 1, 2014, and maturities ranging from 2017 to 2019. Interest income earned on these notes at June 30, 2015 amounted to $8,800,000.

Investment with the PRGITF amounted to approximately $1,040,000 as of June 30, 2015. Dividend income earned on this investment amounted to $225 for the year ended June 30, 2015.

Accounts receivable from the Commonwealth's agencies, municipalities and public corporations amounted to approximately $32.9 million as of June 30, 2015. Medical and administrative expenses paid to the Commonwealth's agencies and public corporations amounted to approximately $8.6 million for the year ended June 30, 2015.

The Corporation has a capital commitment outstanding of $23 million at June 30, 2015 related to the remodeling and expansion project of the Industrial Hospital through an interagency assistance contract entered with the Infrastructure Financing Authority of Puerto Rico, a public corporation of the Commonwealth of Puerto Rico, for the development and management of this project in all its phases. The term of the contract ended on June 30, 2016.

On June 4, 2015 Act No. 80-2015 was enacted to authorize the Corporation, among other governmental agencies, to issue a loan and/or a contribution to the General Fund of the Commonwealth of Puerto Rico in the aggregate amount of $125 million, ensuring that the necessary amounts to amortize the related debt, be assigned in the operational budgets of the Commonwealth. Pursuant to the Act, on June 5, 2015, the Corporation granted a loan in the amount of $100 million to the Department of the Treasury of the Commonwealth of Puerto Rico, at a 1% interest rate, to be payable along with the principal amount on an annual basis from July 31, 2017 through July 31, 2032. The payments for this loan will be consigned annually in the General Budgets of the Commonwealth until July 31, 2032.

The Commonwealth and several of its Component Units (also referred to as instrumentalities) face significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due, as further described in the basic financial statements of the Commonwealth at June 30, 2014. GASB Statement No.56 *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB Statement No. 56) require management to evaluate whether there is substantial doubt about a government's

ability to continue as a going concern for twelve months beyond the financial statement date. The risks and uncertainties facing the Commonwealth, together with other factors described in their basic financial statements, have led the Commonwealth's management to conclude that there is substantial doubt as to the ability of the Primary Government (including the Governmental Activities carried out by various Blended Component Units), and of various Discretely Presented Component Units and Fiduciary Funds, to continue as a going concern in accordance with GASB Statement No. 56. For similar reasons, and for the uncertainty in the future ability of the Commonwealth to make appropriations for the repayment of their loans with GDB, the latter also carries substantial doubt about its ability to continue as a going concern in accordance with GASB Statement No. 56.

For similar reasons, the Retirement System also carries substantial doubt about its ability to continue as a going concern in accordance with GASB Statement No. 56. The Retirement System's fiduciary net position as a percentage of total pension liability was less than one percent as of June 30, 2014. Management of the Retirement System understands that if measures are not taken to significantly increase contributions, the Retirement System will become insolvent by fiscal year 2018 depending on the timing of receipt of contributions and the Retirement System's ability to dispose of illiquid assets. Future employers' contributions have been pledged for debt service, consequently, further depletion of the Retirement System's assets could result in inability to pay benefits.

Loans to the Commonwealth and its public entities constitute a significant portion of GDB's assets. As a result, GDB's liquidity and financial condition depends to a large extent on the repayment of loans made to the Commonwealth and its public entities, which face significant fiscal and financial challenges. As a result of the fiscal, financial and economic condition of the Commonwealth and its Component Units, which are both the counterparties to GDB's loan portfolio, which is GDB's principal asset, and its clients as a depositary institution, GDB's financial condition and liquidity has materially deteriorated and it could become unable to honor all its obligations as they become due.

For transfers to (from) other governmental agencies, see Note 16. For transactions with the Retirement System, see Note 18.

(24) Subsequent Events

On July 2, 2015 Act No. 102-2015 was enacted by the Commonwealth of Puerto Rico. Each fiscal year the Commonwealth issues notes in anticipation of taxes and revenues (Tax Revenue Anticipation Notes or "TRANS") so that the Commonwealth, in its cash flow management program designed to maximize the use of moneys in the General Fund, will

have an alternate means of providing a liquidity mechanism to cover any temporary cash shortages projected for a fiscal year. TRANS are a type of short term financing, which are repaid during the last quarter of the fiscal year. Act No. 102-2015 amends certain existing laws such that certain governmental entities, such as the Corporation, can acquire TRANS from the Commonwealth during fiscal year 2015-2016 in the aggregate amount of $400 million. Pursuant to the Act, the Corporation was authorized on July 15, 2015 to invest $335 million in Tax Revenue Anticipation Notes from the Commonwealth during fiscal year 2015-2016. The TRANS should generate a return (6% interest per annum) equal or greater than the average investment return of the Corporation's fixed income portfolio during the 12 month period before March 31, 2015.

On July 2, 2015 Act No. 105-2015 was enacted to create the "Municipal Support Fund 2015-2016" and define its uses and create the "Legal Responsibility Fund 2015-2016" among other. Act No. 105-2015 requires a transfer of $55,430,000 from the Corporation to the "Municipal Support Fund 2015-2016", a transfer of $31,949,000 to the "Legal Responsibility Fund 2015-2016" and a transfer of $12,621,000 to the "Fund of Services and Therapies for Special Education Students" created by Act No. 73-2014. The Corporation transferred the aforementioned funds in two installments of $50,000,000; the first installment during November, 2015 and the second one during December 2015.

On August 27, 2015, the Board of Directors of the Corporation approved the prepayment in full of the existing Note Payable with a private financial institution. The Board approved the partial sale of the Corporation's investment portfolio to obtain the funds to pay off the debt. On September 2015, the Corporation paid off approximately $208,000,000 related to the Note Payable, which included principal balance, interest and prepayment penalty. Upon the prepayment of the loan, all pledged assets were released by the financial institution.

On December 8, 2015, Act 211-2015 was enacted by the Commonwealth of Puerto Rico. Such legislation establishes a Voluntary Pre-Retirement Program, with the purpose of offering a pre-retirement opportunity to eligible Commonwealth employees, in which they may, voluntarily retire from employment in an incentivized form, until they comply with the retirement requirements. The Act requires that governmental entities interested in joining the program, submit an application to that effect, including an implementation appraisal, and design a Pre-Retirement Employer Plan, in case that the appraisal shows savings in the average salary and related benefits expense. The Corporation has evaluated the possibility of joining the Program, while estimating the financial impact in the Corporation's budget, has submitted its application and implementation appraisal and is in the process of obtaining approval to join.

On April 6, 2016, the Governor signed Act 21-2016, known as the "Puerto Rico Emergency Moratorium and Financial Rehabilitation Act" (the "Act 21-2016"). Section 201 and Section 203 of the Act, respectively, authorizes the Governor to declare a state of emergency for GDB in order to protect the health, safety and welfare of the residents of the Commonwealth and to take any and all actions that are reasonable and necessary to allow GDB to continue carrying out its operations.

On April 8, 2016, pursuant to Section 201 of the Act 21-2016, the Governor signed an Executive Order which declared that GDB is in a state of emergency and announced the commencement, as of the date of the Executive Order, of an emergency period as defined in the Act 21-2016. As further explained in Note 3 to the financial statements, the Executive Order (a) imposes restrictions on the withdrawal, payment, and transfer requests submitted to GDB by agencies, public corporations and various government instrumentalities including the Corporation. It also prohibits the disbursement of any and all loans and advances by GDB, and (b) the payment of any and all obligations guaranteed by GDB are temporarily suspended. The Executive Order will remain in full force and effect until the earlier of (i) June 30, 2016, or (ii) revocation of the Executive Order.

On May 3, 2016, Standard & Poor's Global Ratings lowered its issue credit rating on the senior unsecured debt of the GDB to D (default) from CC. The GDB did not make a principal payment of approximately $370 million on its series 2011B senior unsecured notes due May 2, 2016, and it exchanged and extended the maturities on about $33 million of these notes. As a result the issue credit rating was lowered. The default on the notes followed the Executive Order of April 8, 2016 signed by the Governor of the Commonwealth that imposed a moratorium on all principal payments on GDB debt within a previously announced emergency period that will likely last until January 31, 2017 (with an option for an extension of not more than two months).

On June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which grants the Commonwealth and its component units access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. In broad strokes, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board, relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

The Corporation evaluated subsequent events up to June 30 2016, the date the financial statements were available to be issued.

*****

LANDA UMPIERRE PSC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Required Supplementary Information (Unaudited)

Ten - Year Claims Development Information

Year ended June 30, 2015

Description		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1) Projected gross earned premiums	$	722,506	725,335	736,209	709,075	669,801	680,967	698,141	691,769	663,402	640,950
2) Unallocated expense		NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
3) Estimated ultimate awards at end of policy year	$	494,000	477,598	478,404	476,369	496,427	462,174	433,384	419,716	377,238	373,135
4) Awarded as of:											
12 months	$	260,634	266,914	269,589	276,168	292,353	268,247	247,708	242,001	216,762	224,560
24 months		330,329	336,395	337,729	349,956	377,555	346,968	311,719	286,524	255,643	
36 months		358,395	367,518	372,428	387,092	420,988	386,544	346,690	310,372		
48 months		373,080	385,693	391,793	406,643	444,876	409,719	365,193			
60 months		383,607	397,857	404,375	419,203	460,576	424,307				
72 months		391,306	406,423	412,750	428,303	471,124					
84 months		396,916	412,191	418,888	434,918						
96 months		401,275	416,679	423,284							
108 months		404,336	420,075								
120 months		406,641									
5) Re-estimated ultimate incurred:											
12 months	$	494,000	477,598	478,404	476,369	496,427	462,174	433,384	419,716	377,238	373,135
24 months		449,171	460,651	462,871	467,551	501,982	469,985	425,528	395,275	345,761	
36 months		446,943	456,440	454,667	474,334	511,403	475,169	429,688	376,912		
48 months		444,532	455,030	459,509	479,214	516,950	478,540	426,189			
60 months		443,561	458,392	466,071	480,454	520,624	477,819				
72 months		443,877	458,998	465,325	480,132	520,318					
84 months		446,770	459,480	466,321	479,185						
96 months		444,653	459,910	465,853							
108 months		444,514	459,669								
120 months		444,160									

NA=Not available

See accompanying independent auditors' report.

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Required Supplementary Information (Unaudited)

Preliminary and Unaudited Schedules of the Corporation's Proportionate Share of the Net Pension Liability and Corporation's Contributions

Year ended June 30, 2015

The following schedules 2a & 2b are being presented to provide information on the Corporation's proportionate share of the Net Pension liability and the Corporation's contributions related to the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities.

Information is preliminary and unaudited.

(2a) Schedule of the Corporation's Proportionate Share of the Net Pension Liability

		Fiscal Year 2015*
Corporation's proportion of the net pension liability		4.71%
Corporation's proportionate share of the net pension liability	$	1,417,962,700
Corporation's covered-employee payroll	$	186,993,972
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll		758%
Plan's fiduciary net position as a percentage of the total pension liability		0.42%

* Amounts presented above were based on the measurement period ending June 30, 2014.

(2b) Schedule of the Corporation's Contributions

		Fiscal Year 2015**
Statutorily required employer contribution	$	30,628,657
Amount of contributions recognized by the pension plan in relation to the statutorily required contribution		30,628,657
Contribution deficiency (excess)	$	—
Corporation's covered-employee payroll	$	182,278,452
Contributions recognized by the pension plan as a percentage of covered-employee payroll		16.80%

** Amounts presented above were based on the fiscal year ended June 30, 2015.
Fiscal year 2015 was the first year of implementation, therefore only one year is shown.

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Required Supplementary Information (Unaudited)

Schedule of Funding Progress and Employer Contributions for Pension Costs

Year ended June 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (3) (AAL) (b)	Unfunded/ (Overfunded) ALL (UAAL) (3) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (2) ©	UAAL as a Percentage of Covered Payroll [(b)-(a)/©]
July 1, 2014	—	$ 21,064,434	21,064,434	0%	182,278,452	11.6%
July 1, 2012	—	29,634,360	29,634,360	0%	189,416,028	15.6%
July 1, 2011	—	37,673,268	37,673,268	0%	201,141,746	18.7%

Schedule of Employer Contributions:

Fiscal Year Ended	Annual Pension Cost (APC)	Employer Contributions (1)	Percentage Contributed	Net Pension Obligation
June 30, 2015	$ 2,539,669	422,634	16.6%	8,234,892
June 30, 2014	2,543,130	3,575,455	140.6%	6,117,857
June 30, 2013	4,043,044	7,141,863	176.6%	7,150,183
June 30, 2012	4,629,858	1,629,318	35.2%	10,249,002
June 30, 2011	5,389,289	6,025,098	111.8%	7,248,462

(1) Since there is no funding, these are estimated cash plan premiums and other payments less estimated participant contributions.
(2) Estimated plan participant payroll, includes only plan participants.
(3) The unfunded actuarial accrued liability does not include the impact of Act. No. 66-2014.

See accompanying independent auditors' report.

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Required Supplementary Information (Unaudited)

Schedule of Funding Progress and Employer Contributions for Postemployment Benefits other than Pensions

Year ended June 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) ALL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (2) ©	UAAL as a Percentage of Covered Payroll [(b)-(a)/©]
July 1, 2014	—	$ 30,838,515	30,838,515	0%	182,278,452	16.9%
July 1, 2012	—	38,363,662	38,363,662	0%	189,416,028	20.3%
July 1, 2011	—	57,800,111	57,800,111	0%	201,141,746	28.7%

Schedule of Employer Contributions:

Fiscal Year Ended	Annual OPEB Cost (AOC)	Employer Contributions (1)	Percentage Contributed	Net OPEB Obligation
June 30, 2015	$ 2,854,308	4,637,078	162.5%	940,656
June 30, 2014	3,185,217	6,572,857	206.4%	2,723,426
June 30, 2013	3,414,010	7,143,207	209.2%	6,111,066
June 30, 2012	5,161,392	4,873,734	94.4%	9,840,263
June 30, 2011	5,555,649	5,644,614	101.6%	9,552,605

(1) Since there is no funding, these are estimated cash plan premiums and other payments less estimated participant contributions.
(2) Estimated plan participant payroll, includes only plan participants.

See accompanying independent auditors' report.

LANDA UMPIERRE PSC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

P.O. Box 363642
San Juan, PR 00936
Tel. 787-765-4644
Fax 787-763-5504
www.landaumpierre.com

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors of
State Insurance Fund Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of net position, revenues, expenses and changes in net position and cash flows of State Insurance Fund Corporation (the Corporation) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated June 30, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control that we reported to the Corporation's management in a separate letter dated June 30, 2016.

Member firm of CPA Associates International with offices in principal cities worldwide

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Corporation's Response to Findings

The Corporation's response to the findings identified in our audit is described in a separate letter dated June 30, 2016. The Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Landa Umpierre PSC

San Juan, Puerto Rico
June 30, 2016

Stamp number E189880 of the Puerto Rico Society
of CPA's was affixed to the record copy of this report.